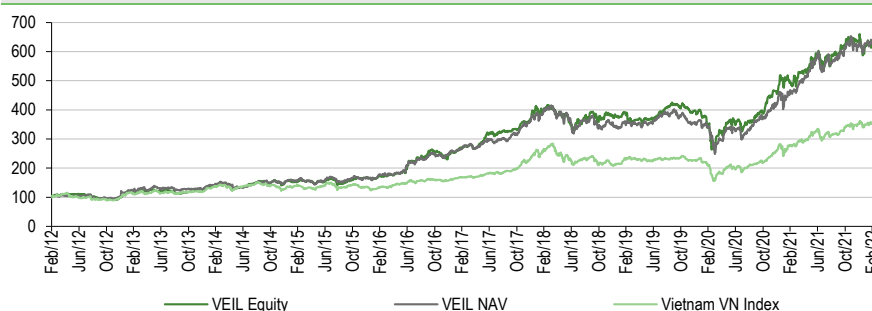


# Vietnam Enterprise Investments

An integral participant in Vietnamese growth

Vietnam Enterprise Investments (VEIL) is the largest and longest-established Vietnamese equities closed-end fund. VEIL has materially outperformed its peers and the VN Index during the past three, five and 10 years. This included a very strong performance in 2021, when VEIL's NAV was up 47% against a 1.5% decline in the MSCI Emerging Markets Index. The trust is well positioned for longer-term investors looking for exposure to the fast-growing Vietnamese economy via a relatively large and liquid listed equity vehicle. Dragon's focused approach targets future winners within growing sectors in Vietnam.

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



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

## Why invest in VEIL now?

Vietnam had one of the highest-growing economies in the world throughout the COVID-19 pandemic and this looks set to continue (Dragon Capital's forecast is for 7.2% GDP growth in 2022). VEIL is actively managed and structured to benefit from this growth. The team has a track record in picking future leaders and many of its large-cap holdings were purchased when they were small- or mid-caps. As the biggest fund investing in Vietnam, VEIL is at the forefront of IPOs and structured deals. It also benefits from corporate engagement and has had ESG measures in place for many years. Trading at a 20% discount, wider than its average over the last three years (13%), VEIL also allows investors to own hard-to-access Vietnamese stocks which are subject to foreign ownership limits, these make up 44% of NAV (see below for details). The board actively manages the discount and in 2021 bought back 3.4m shares (1.6% of shares in issue), up from 1.1m shares in 2020, as the COVID-19 pandemic escalated.

## The analyst's view

We believe VEIL's portfolio is positioned to capture long-term growth within Vietnam and continue its strong performance through the two key investment themes. These are an emerging middle class and fast-growing GDP per capita, supported by the boost in infrastructure spending by the government, with banks, property and steel companies set to benefit. With the expected recovery in discretionary spending, the retail and technology/software services sectors are likely to outperform the indices. Together these themes comprise close to 90% of VEIL's portfolio.

## Investment trusts Vietnamese equities

21 March 2022

**Price** 723p

**Market cap** £1,526m

**AUM** £1,926m

NAV\* 905.0p

Discount to NAV\* 20.1%

\*Including income. As at 17 March 2022.

Yield 0.0%

Ordinary shares in issue 211.0m

Code/ISIN VEIL/KYG9361H1092

Primary exchange LSE

AIC sector Country Specialists: Asia Pacific

Benchmark VN Index

52-week high/low 791p 554p

NAV\* high/low 947p 665p

\*Including income.

## Gearing

Net cash at 31 December 2021 3.4%

## Fund objective

Vietnam Enterprise Investments' (VEIL) 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

- The strongest performance over three, five and 10 years among three peers.
- Portfolio management team supported by a large team of 15 analysts, monitoring includes rigorous ESG analysis.
- Strong track record of stock-picking and competitive deal power in Vietnam.

## Bear points

- Very strong 2021 performance could limit 2022 return potential to an extent.
- In a risk-off scenario investors might consider withdrawing from emerging markets, and Vietnamese equities might take a hit.
- 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.

## Analysts

Victoria Chernykh +44 (0)20 3077 5700

Sarah Godfrey +44 (0)20 3681 2519

[investmenttrusts@edisongroup.com](mailto:investmenttrusts@edisongroup.com)

[Edison profile page](#)

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

## Fund profile: Quarter century of Vietnamese expertise

VEIL was launched in August 1995 and is the largest and longest-established Vietnam fund. It invests in listed equity and pre-IPO companies and, due to its size, has access to structured deals, often on competitive terms. Exhibit 1 presents the key features of the fund alongside its two London-listed peers, VinaCapital Vietnam Opportunity Fund (VOF) and Vietnam Holding (VNH).

**Exhibit 1: London Stock Exchange listed Vietnamese investment trusts**

| Feature                      | VEIL   | VNH   | VOF  |
|------------------------------|--|---|--|
| Market cap £m*               | 1,581m   | 95.1  | 847.8  |
| Inception                    | Sep-95   | Jun-06,<br>managed by Dynam Capital since Jul-18  | Sep-03   |
| 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 (GARP), 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; member of FTSE 250  | 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  |
| 3yr NAV TR*                  | 85.1%  | 84.9%   | 73.5%  |
| 3yr average discount to NAV* | 12.6%  | 18.1%   | 16.4%  |
| Latest discount to NAV*      | 18.1%  | 14.7%   | 18.6%  |
| Fees                         | The new, 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 \$300–600m, 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**        | 2.03%  | 2.57%   | 3.06% (ongoing charges of 1.66%)   |

Source: company data, Edison Investment Research, Morningstar. Note: \*To end-January 2022. \*\*Last financial year.

VEIL has been managed by Dragon Capital since launch. It listed on the London Stock Exchange in July 2016, becoming a constituent of the FTSE 250 Index in July 2017. The fund aims to deliver long-term capital growth and outperform the VN Index on a rolling three-year basis through investing in Vietnamese equities. The manager, Dien Vu, employs an unconstrained bottom-up approach. The concentrated portfolio of around 25–30 holdings represents his and his 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. VEIL primarily invests in listed equities. The fund's structure also permits it to invest in unquoted companies due to be listed within a maximum of 1.5 years. At end-December 2021, all of its holdings were listed on one of Vietnam's three exchanges: the Ho Chi Minh Stock Exchange, the Hanoi Stock Exchange, and the Unlisted Public Companies Market. At end-December 2021, the fund held no private companies.

### VEIL: Generating alpha through deal power

VEIL has been an active participant in market transactions, investing in companies when they go public or issue a material number of additional shares. This goes back to the fund's inception. For example, in 1996 VEIL was the first foreign investor in a Vietnamese bank, when it purchased shares in Asia Commercial Bank; it still holds this today. The position in the bank is one of the fund's major portfolio holdings. The fund has been an anchor investor in most of the biggest IPOs in Vietnam in the past five years. Due to VEIL's size, it is frequently at the top of the lists of investment banks and brokers when bringing deals to the market; it often has a first-mover advantage as a result, with the ability to negotiate competitive terms.

## Portfolio

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### **Crystallising value from stocks with foreign ownership limits**

At the end of February 2022, VEIL had 44% of its portfolio in foreign ownership limit (FOL) stocks, which usually command an off-market premium between 7% and 30%. This means there is hidden value from these stocks because VEIL's reported NAV is marked to market (stated at current market prices). With the fund trading at a discount and 44% of the portfolio often able to command premiums, there is further value to be found. The 49% FOL on most Vietnamese equities (30% for banks) creates a scarcity value and the premium between foreign investors. This premium is only realised on the sale of a stock. The team selects market leaders or those primed to become market leaders, regardless of the foreign ownership limit, for example last year it paid a premium to acquire shares in Techcombank, a leading private bank in Vietnam. This then affects NAV performance as the price is marked to market, but Dragon believes this value will be realisable through superior performance, at the time of exiting a stock or when FOLs cease to exist. As and when FOL stocks can trade more transparently on the market, this is expected to realise extra upside potential for investors in the fund.

The team often sells or liquidates FOL positions at a 7–30% premium, sometimes even 50%, which it received for Mobile World Group recently. Thanks to its size, VEIL is usually among the larger private institutional investors in these companies, meaning it can often command a big-block (5–10% up to 24.99% stake) premium when a strategic investor wants to increase their position. An example of this is the 24.9% stake sold in Imexpharm, one of the biggest and most advanced domestic drug manufacturers, to SK Chemical. The premium to market price when the deal was negotiated was over 40%.

### **Long-term holdings with high conviction transform from small and mid-caps to blue chips**

VEIL's top positions include many long-term holdings it has grown as Vietnam's economy and market have developed. This includes top position, Hoa Phat Group, an integrated steel manufacturer, held since June 2009 when its market capitalisation was \$633m. Following more than a decade of capacity expansion to become the only integrated steel producer in Vietnam, the market cap at the end of February 2022 was \$9.3bn. Over this period, a commercially minded management team, which follows conservative risk management practices, created economies of scale and consolidated the market by taking share from smaller players.

VEIL invested in leading retailer Mobile World in October 2014, when it was valued at \$517m and had around 300 mobile phone stores and a handful of shops in its consumer durables chain. The company has transformed modern trade in Vietnam and today has over 5,300 outlets; it is now rapidly scaling a grocery store chain and its current market capitalisation is c \$4.1bn. Another company at its FOL, FPT, had a market cap of \$300m at time of investment in July 2008; today the valuation of this tech and telecoms conglomerate is valued at \$3.8bn.

One of the biggest wins for the fund has been property developer Khang Dien House, valued at \$22m when VEIL first invested in October 2013. It had sizeable landbanks in what was yet to become a highly desirable part of Ho Chi Minh City; after the successful execution of many midlevel projects, the company's current market capitalisation is \$1.4bn.

As a result of VEIL's structure and the transformational growth of mid-caps into large caps (see below for Dragon's market cap definitions), the bulk of VEIL's portfolio is in large caps.

## Portfolio update

Following significant restructuring at the end of 2019 and during 2020, as the team was comfortable with the resulting portfolio positioning, 2021 changes within the portfolio were minimal. During the restructuring the portfolio became more balanced across companies with domestic and international exposure, as well as the market cap spectrum, with more large caps (Dragon classes these as \$3bn+ for the Vietnam market) and moved away from the previous heavy overweight in mid-caps (\$1–3bn). The team also focused the portfolio more, having reduced the target number of stocks from 40–45 names before 2019 to 25–30 currently.

The portfolio contained 25 holdings at end-December 2021 (28 holdings at end-December 2020), within the targeted 25–30 range (updated during restructuring). As shown in Exhibit 2, two major changes over the past 12 months were the increase in the real estate and diversified financials weightings (+5.5pp and +4.6pp, respectively) and a reduction in the food and beverages and transportation sectors (-4.8pp and -2.9pp, respectively).

**Exhibit 2: Portfolio sector exposure at 31 December 2021**

| % unless stated          | Portfolio<br>31 Dec 2021 | Portfolio<br>31 Dec 2020 | Change<br>(pp) | VN Index<br>weight | Active weight<br>vs index (pp) | Company weight/<br>index weight (x) |
|--------------------------|--------------------------|--------------------------|----------------|--------------------|--------------------------------|-------------------------------------|
| Banks                    | 35.9                     | 33.7                     | 2.2            | 30.8               | 5.1                            | 1.2                                 |
| Real estate              | 28.0                     | 22.6                     | 5.5            | 25.1               | 3.0                            | 1.1                                 |
| Materials & resources    | 12.2                     | 12.2                     | 0.0            | 9.4                | 2.9                            | 1.3                                 |
| Retail                   | 11.3                     | 11.9                     | -0.5           | 2.5                | 8.9                            | 4.6                                 |
| Diversified financials   | 5.5                      | 0.8                      | 4.6            | 8.1                | -2.6                           | 0.7                                 |
| Software & services      | 4.3                      | 4.1                      | 0.2            | 1.7                | 2.6                            | 2.6                                 |
| Energy                   | 1.2                      | 2.8                      | -1.6           | 4.7                | -3.4                           | 0.3                                 |
| Transportation           | 1.0                      | 3.8                      | -2.9           | 3.3                | -2.3                           | 0.3                                 |
| Food & beverage          | 0.5                      | 5.3                      | -4.8           | 6.9                | -6.4                           | 0.1                                 |
| Consumer durables        | 0.0                      | 2.2                      | 2.2            | 0.7                | -0.7                           | 0.0                                 |
| Capital goods            | 0.0                      | 0.5                      | -0.5           | 2.4                | -2.4                           | 0.0                                 |
| Pharmaceuticals          | 0.0                      | 0.0                      | 0.0            | 0.6                | -0.6                           | 0.0                                 |
| Automobiles & components | 0.0                      | 0.0                      | 0.0            | 0.1                | -0.1                           | 0.0                                 |
| Other sectors            | 0.0                      | 0.0                      | 0.0            | 3.9                | -3.9                           | 0.0                                 |
|                          | <b>100.0</b>             | <b>100.0</b>             |                | <b>100.0</b>       |                                |                                     |

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

Within the highlighted macroeconomic backdrop, Dragon's investment themes remain unchanged. One of the key themes is the emerging middle class and urbanisation, supported by the ramp-up in infrastructure spending. Dragon believes banks, property and steel companies are set to benefit and anticipates the recovery in discretionary spending, where the retail and technology/software services sectors are likely to perform well. Given this high conviction by the team, the four sectors representing these industries, namely, banks, real estate, materials/resources and retail, have the largest sector weights in VEIL, accounting for 87.5% of VEIL's portfolio (Exhibit 2).

Exposure to the banks sector remains the largest at 35.9%. Dragon believes the banking industry has numerous drivers for strong post-COVID-19 pandemic growth. These include interest rate subsidies from the fiscal support package, reversal of pandemic provisions, higher fee income and sales of strategic stakes. Dragon considers sector valuations attractive (9.7x forward P/E ratio on expected EPS growth of 31%), after the sell-off that took place in H221, mainly of state-owned banks (that VEIL is underweight in), following the government's warnings against 'excess' profits and concerns over non-performing loans. These concerns were quickly resolved following the strong Q421 results. These showed asset quality for the sector, and particularly in top-tiered banks that were not affected by non-performing loan issues. VP Bank (10.7% of the portfolio) and Techcombank (3.9%) are both in VEIL's top 10 holdings. VP Bank has been in the portfolio for years, after Dragon invested in the company as a private deal in January 1996, before later divesting and then buying back when the bank listed in July 2017. VP Bank is one of the biggest private banks in Vietnam. It has a sizeable digital banking division and leads the way in penetrating

the mass retail market in Vietnam, with estimates showing only around 40% of the population have a bank account, their state-of-the-art digital platform for customer acquisition and retention is giving the bank a strong competitive advantage. Dragon believes that both VP Bank's and Techcombank's traditional banking and digital divisions will continue to grow.

The team sees significant recovery growth potential within the retail sector. Consumer sentiment was affected by the Q321 lockdown, but with economic reopening it is bouncing back, having recorded growth in Q421, supported by pent-up demand. VAT has been cut from 10% to 8% for most goods and services. The conclusion for Dragon is that retail is set to be one of the highest growth sectors in 2022 and the manager forecasts its earnings to increase by 40%. This increase reflects both pent-up demand post pandemic and larger retails increasing market share at the expense of mom-and-pop stores. Additionally, Dragon expects a shift in shopping habits, moving away from traditional brick-and-mortar stores towards e-commerce, with omnichannel models likely to dominate this space.

Mobile World (one of VEIL's top 10 holdings, with a 9.6% weight at end-December 2021, see Exhibit 3) recorded \$5.4bn (+13% y-o-y) of revenue in 2021, of which \$630m (+53% y-o-y) came from online sales, which was the biggest contribution to total 2022 online consumer goods sales made by one company. In 2022 Mobile World targets over \$6bn of revenue and a 50% market share in all Apple products sold in Vietnam, following the successful roll-out of dedicated Apple stores under its specially created TopZone brand.

**Exhibit 3: Top 10 holdings (%)**

| Company                | Industry            | 31-Dec-21   | 31-Dec-20   | Change pp | VN Index    |
|------------------------|---------------------|-------------|-------------|-----------|-------------|
| Hoa Phat               | Materials/resources | 12.2        | 11.9        | 0.3       | 3.7         |
| VP Bank                | Banks               | 10.7        | 3.6         | 7.1       | 2.8         |
| ACB                    | Banks               | 9.8         | 9.1         | 0.7       | 1.7         |
| Mobile World           | Retail              | 9.6         | 9.6         | 0.0       | 1.7         |
| Vinhomes               | Real estate         | 6.7         | 6.9         | -0.2      | 6.3         |
| Vietcombank            | Banks               | 6.0         | 8.3         | -2.3      | 5.2         |
| Vingroup               | Real estate         | 5.5         | 3.6         | 1.9       | 6.4         |
| FPT                    | Software/services   | 4.3         | 4.0         | 0.3       | 1.5         |
| Techcombank            | Banks               | 3.9         | 2.6         | 1.3       | 3.1         |
| Dat Xanh               | Real estate         | 3.8         | 2.0         | 1.8       | 0.4         |
| <b>Top 10 holdings</b> |                     | <b>72.5</b> | <b>61.6</b> |           | <b>32.8</b> |

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

Dragon believes the outlook for the real estate sector is positive. The Vietnamese government eased the rules on project approvals and it expects fiscal stimulus to result in higher infrastructure spending and faster urban development. The middle class continues to grow, from 18% of the population in 2020 to a projected 25% by 2025, as reported by Nielsen Research using World Bank definitions. Dragon believes that growing demand for industrial parks will support sustained property expansion, but careful selection of the best-positioned developers is required.

A number of niche subsectors, such as industrial park developers and property brokerages, including a part of Dat Xanh Group's business, remain on Dragon's radar. The team follows industrial park developers in the property sector and expects these companies to benefit from the supply chain shifts.

Over the past two years VEIL has seen a return of structured and pre-IPO/IPO deals to the market. For example, VEIL has recently invested in a leading securities brokerage in Vietnam, Saigon Securities Corporation, via a structured deal at a favourable entry price. Vietnam's capital markets have seen liquidity more than quintuple over the past two years from an average daily traded value of around \$200–300m to averaging \$1.5–2bn today.

## Performance and discount

Exhibit 4 shows VEIL's discrete performance over the past five years.

**Exhibit 4: Five-year discrete performance data**

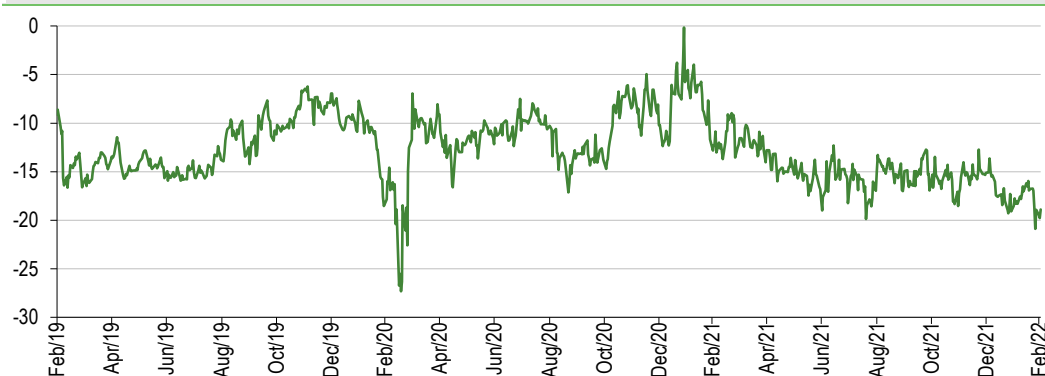
| 12 months ending | Total share price return (%) | Total NAV return (%) | Vietnam VN Index (%) | Vietnam VN All-Share Index (%) | Vietnam VN30 Index (%) | MSCI Emerging Markets (%) |
|------------------|------------------------------|----------------------|----------------------|--------------------------------|------------------------|---------------------------|
| 28/02/18         | 47.4                         | 51.3                 | 46.2                 | 43.2                           | 54.6                   | 18.0                      |
| 28/02/19         | (3.4)                        | (13.4)               | (10.8)               | (11.1)                         | (15.4)                 | (6.0)                     |
| 29/02/20         | (11.6)                       | (1.4)                | (3.2)                | (4.8)                          | (3.4)                  | 2.4                       |
| 28/02/21         | 46.0                         | 34.7                 | 24.7                 | 33.2                           | 32.0                   | 24.9                      |
| 28/02/22         | 25.6                         | 37.7                 | 35.5                 | 44.2                           | 36.9                   | -6.7                      |

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

Before the portfolio restructuring (completed by the end of 2020), as the team was repositioning the portfolio, VEIL was underweight market leading large-cap stocks that drove the markets upwards during 2017–19. This hit its relative performance to end-February 2019 against the VN Index. We note that VEIL's performance to end-February 2020 was more defensive, when it fell less than the index. The NAV performance of the trust strongly rebounded post-restructuring, over the last two discrete periods. This performance results in VEIL continuing to fulfil its objective (to end-January 2022) to outperform the VN Index on a rolling three-year basis, in total return terms.

The share price lagged NAV during the 12-month period ending 28 February 2022, when the Vietnamese equity market rocketed and the NAV TR outperformed the VN Index (Exhibits 5 and 6), as the share price did not keep up with the portfolio's strong performance. VEIL currently trades at a 20.1% discount, wider than both its one-year average discount of 15.4% and three-year average of 12.9%. While the FTSE 250, in which VEIL is a constituent, fell 16% in the six months to end-February 2022, VEIL's NAV and the Vietnam Index were near record levels. Since the fourth wave of COVID began in Vietnam in May 2021, the board has repurchased 5.6m shares (2.7% of shares outstanding).

**Exhibit 5: Three-year discount to NAV**



Source: Refinitiv, Edison Investment Research

The board seeks to avoid large fluctuations in the discount relative to similar single country investment companies investing in Asia ex-Japan, and manages an imbalance in the supply and demand for the shares through buy backs. Over the year to end-December 2021 VEIL bought back c 3.4m shares (c £23.6m) under its share repurchase programme. It has also repurchased 2.2m shares (c 1% of the shares outstanding) between the start of FY22 and 11 March 2022. VEIL has 211.0m shares outstanding.

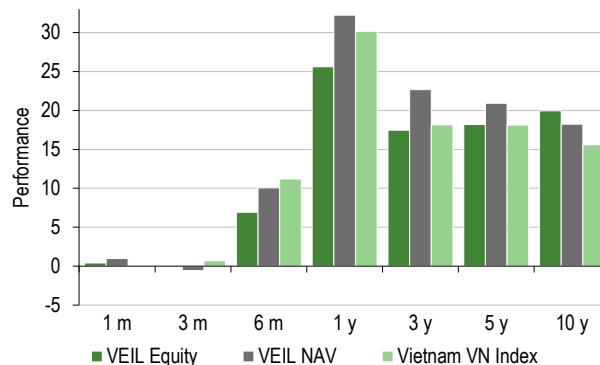
Exhibit 6 illustrates VEIL's solid performance relative to the VN Index over cumulative periods. VEIL's NAV has outperformed the VN Index over one, three, five and 10 years.



**Exhibit 6: Investment company performance to 28 February 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 7 presents the averages for the Vietnam peer group of three London-listed trusts, where VEIL remains the largest. VEIL's market cap is c £1.5bn, and its gross assets were \$2.6bn (£1.9bn) at end-December 2021.

VEIL has a different mix of sectors compared to its two peers. As at end-December 2021, it is overweight in banks (38% versus 31% for the VNI) and real estate (28% versus 25% for the index).

Being the largest fund, VEIL tends to be a substantial player on the quoted Vietnamese market, as discussed in the manager's view section above. Its market knowledge, experience and size enabled Dragon to generate a strong NAV total return, outperforming peers over three-, five- and 10-year periods.

While VEIL's ongoing charges are in the middle of the three funds, the 2021 reduction in fees (see below for details) means that the board expects the total expense ratio (TER) to fall below 2.0% in FY22; over the year to date to the end of February 2022 was averaging 1.82%.

Exhibit 7 shows VEIL's strong performance ranking among Asian peers excluding Japan. VEIL ranks top among nine peers (excluding VEIL) over three, five and 10 years and second over one year, on NAV TR basis.

**Exhibit 7: Country specialist Asia, China, India and Vietnam peer group\***

| % unless stated                | Market cap £m | NAV TR<br>1 year | NAV TR<br>3 year | NAV TR<br>5 year | NAV TR<br>10 year | Discount<br>(cum-fair) | Ongoing<br>charge | Perf.<br>fee | Net<br>gearing | Dividend<br>yield (%) |
|--------------------------------|---------------|------------------|------------------|------------------|-------------------|------------------------|-------------------|--------------|----------------|-----------------------|
| Vietnam Enterprise             | 1,521.7       | 50.2             | 86.1             | 143.8            | 596.8             | (21.7)                 | 2.03              | No           | 97             | 0.0                   |
| Aberdeen New India             | 311.0         | 21.7             | 45.1             | 66.4             | 191.1             | (17.8)                 | 1.16              | No           | 111            | 0.0                   |
| Baillie Gifford China Growth   | 177.4         | (26.0)           | 7.8              | 16.6             | 83.0              | (12.7)                 | 1.45              | No           | 102            | 2.5                   |
| Fidelity China Special         | 1,274.6       | (25.1)           | 47.8             | 66.0             | 343.8             | (6.7)                  | 0.97              | Yes          | 129            | 1.9                   |
| India Capital Growth Ord       | 93.2          | 33.9             | 41.6             | 39.2             | 180.3             | (17.9)                 | 1.82              | No           | 99             | 0.0                   |
| JPMorgan China Growth & Income | 297.4         | (33.3)           | 77.6             | 112.2            | 268.1             | (6.0)                  | 0.99              | No           | 119            | 0.0                   |
| JPMorgan Indian                | 567.0         | 23.3             | 34.3             | 40.1             | 137.2             | (18.7)                 | 0.83              | No           | 102            | 0.0                   |
| VietNam Holding                | 92.5          | 64.1             | 84.8             | 88.3             | 457.2             | (20.6)                 | 2.57              | No           | 98             | 0.0                   |
| VinaCapital Vietnam Opp Fund   | 798.1         | 41.4             | 72.9             | 103.5            | 385.3             | (24.9)                 | 1.66              | Yes          | 100            | 2.1                   |
| Weiss Korea Opportunity        | 142.8         | (25.7)           | 50.5             | 55.7             |                   | 0.2                    | 1.78              | No           | 97             | 2.5                   |
| <b>Simple average</b>          | <b>841.5</b>  | <b>51.8</b>      | <b>81.2</b>      | <b>112.1</b>     | <b>480.4</b>      | <b>(17.1)</b>          | <b>2.14</b>       |              | <b>105</b>     | <b>0.7</b>            |
| <b>Rank</b>                    | <b>1</b>      | <b>2</b>         | <b>1</b>         | <b>1</b>         | <b>1</b>          | <b>9</b>               | <b>2</b>          |              | <b>10</b>      | <b>5</b>              |
| Vietnam VN Index               |               | 45.3             | 62.6             | 97.8             | 314.8             |                        |                   |              |                |                       |

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

## ESG

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ESG considerations are key and embedded in the investment approach. The firm is a signatory of the globally acknowledged Principles for Responsible Investing (PRI) since 2013, which has awarded it high A+ and A ratings. In implementing the principles, signatories contribute to the development of a more sustainable global financial system. The PRI has 3,000 signatories and close to US\$100trn in assets under management across its members and asset owners.

VEIL is a pioneer among offshore Vietnamese equities funds in developing ESG standards, working closely with the International Finance Corporation in 2014 and 2015 to create a robust ESG screening process. The ESG leadership team at VEIL has been developed over the past two years and consists of the head of corporate communications, both deputy CIOs, the head of research and two senior investment team members – one from the portfolio management team and one from the research team. The portfolio management team applies ESG standards to the fund, assisted by 15 research team members, and monitors it against violations and infringements. The analysts deploy the checks, and the team does not hesitate to divest from investees that no longer meet the ESG standards.

## Fees

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VEIL reduced the management fee in 2021. The new fee structure (effective from 1 July 2021), to receive 1.85% per year of NAV for the first \$1.25bn of the company's NAV, reducing to 1.65% per annum for NAV between \$1.25bn and \$1.5bn and further reducing to 1.50% per year for NAV above \$1.5bn. The previous fee structure was an annual management fee of 2.0% of NAV up to \$1.25bn and 1.75% of NAV between \$1.25bn and \$1.5bn, then 1.5% above \$1.5bn. The FY21 TER was 2.03%. The board estimates that it will reduce below 2.0% in FY22 due to the fee cut. Current projections for the first two months of the year suggest an annualised TER of 1.82%. There is no performance fee.

## The manager: Dragon Capital

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The manager applies a bottom-up, growth at a reasonable price investment process to find quality companies. There are over 1,700 companies listed in Vietnam and a screen is applied to whittle this down to an investible universe on size, quality and liquidity criteria. In-depth analysis is then undertaken on around 140 stocks, focusing on assessing management quality, financial strength and the intrinsic value of the business. Dragon Capital has recently revamped its investment process, bringing in more clarity and focus. The target number of stocks was reduced from 40–45 names to 25–30. The portfolio has become more balanced across the market cap spectrum, adding more large caps and moving away from its heavy overweight in mid-caps. The key outcome of the review is to target the portfolio weight split for the next three years as:

- Vietnamese economy 45–50%, searching for market leaders and growth companies;
- high-growth mid-cap to big companies 40–45%, these are primarily growth stocks; and
- micro- and small-cap company exposure of 0–5%, these are incubator stocks.

The fund remains actively positioned with an active share of 53–55%, but is more balanced now as the active share range was lowered from 58–60% before the portfolio rebalancing.

This investment process requires local expertise and is time consuming; Dien Vu has been with Dragon Capital for 21 years and is supported by two deputy portfolio managers, Thao Ngo and Tuan Bui, as well as the resources of Dragon Capital's research team of 15 sector specialists. One deputy portfolio manager concentrates on research, analysis, idea generation and presentation, the



other on portfolio monitoring. They complement and support each other. Dragon Capital is the earliest-established investment managers in Vietnam and benefits from a long tenure of engagement with managements of companies.

## The manager's view

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### Vietnamese equity market and outlook

The Vietnam equity market is still trading at a trailing c 11.8x P/E ratio, at the lower end of its five-year trailing P/E range of 10.3x and 21.9x. This is a material discount to China, India and South-East Asian peers (including Thailand, Indonesia and the Philippines), which in aggregate trade at an average PE of 17.6x. Dragon expects 22.6% earnings per share (EPS) growth for Vietnamese companies this year, which compares with 14.0% EPS growth for corporates in emerging Asian countries.

Given the strength in macroeconomic indicators and earnings growth of listed companies, Dragon believes Vietnam's equity market outlook for 2022 is bright. With the Vietnamese economy recovering, Dragon views external risks as major potential hurdles, able to disrupt its optimistic growth scenario. The team notes that the major risk for Vietnamese equities in 2022 is global market volatility, which could potentially constrain the upward trend of Vietnamese equities.

In its view, Federal Reserve monetary tightening is the key risk that could hit global equity markets. Dragon also cautions on a potential withdrawal of foreign investment flows from emerging markets, which could reverse the upward trend of Vietnamese equities. Nevertheless, it believes the Vietnamese market can outperform other emerging markets in such scenario, as it did during 2021.

### Macroeconomic view

The Dragon team's base-case scenario is for the 2022 Vietnamese economy to grow 7.3%. In its view, this will be underpinned by the increase in exports and consumption, with a further 2.3% potential upside from January's stimulus package and the reopening of foreign tourism. This compares with the IMF forecast for world economic growth of 4.9% in 2022. Being a bit less bullish on Vietnam than Dragon, the IMF still forecasts the Vietnamese economy to grow at 6.6% in 2022, a rate higher than the world forecast. Adopting a 'live-with-COVID' strategy, Vietnamese policymakers have set economic recovery as a primary 2022 objective. Although the economy was shut for most of Q321, it reopened in Q421, with estimated Q421 growth of 5.2%, following the implementation of a COVID-19 vaccination programme. The economy grew 2.6% in 2021, buoyed by manufacturing (+4.1%), agriculture (+2.9%) and services (+1.2%).

In contrast to many Western economies, Vietnam, like most Asian countries, is not experiencing the multi-decade historic high level of inflation. Last year in Vietnam the consumer price index inflation rate was 1.8%. While Dragon expects it to rise in 2022, it does not expect it to exceed 4.2%. The team notes that inflation along with GDP growth and foreign exchange rates are 'key' macro indicators for the government. Having gone through a period of high inflation in 2010–12, which resulted in massive depreciation pressure on the Vietnamese dong, the government has had to work very hard to restore confidence in the local currency to its current level. Consequently, the government is highly motivated to keep all three key economic indicators under control. In the past, when inflation was at risk of running high, the government has held back on some planned increases in healthcare and education spending as well as electricity prices and eased the rise of petrol costs via tax reduction. Dragon believes the government may use policy tools again to keep all three factors under control.



In contrast with rising interest rates in the West, partly to counter rising inflation, the State Bank of Vietnam's monetary policy has maintained a more accommodative stance, similar to that of China, pointing to a stable rate environment in 2022.

Despite a three-month lockdown, Vietnam delivered a \$4bn trade surplus in 2021, the sixth consecutive year that the budget has been in surplus. Dragon expects trade to continue to rebound in 2022 and, as things currently stand, forecasts a trade surplus of \$10bn. The government is also encouraging infrastructure investment by lowering taxes, and given the fiscal stimulus, the team expects further acceleration in infrastructure projects across the country.

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Frankfurt +49 (0)69 78 8076 960  
Schumannstrasse 34b  
60325 Frankfurt  
Germany

London +44 (0)20 3077 5700  
280 High Holborn  
London, WC1V 7EE  
United Kingdom

New York +1 646 653 7026  
1185 Avenue of the Americas  
3rd Floor, New York, NY 10036  
United States of America

Sydney +61 (0)2 8249 8342  
Level 4, Office 1205  
95 Pitt Street, Sydney  
NSW 2000, Australia