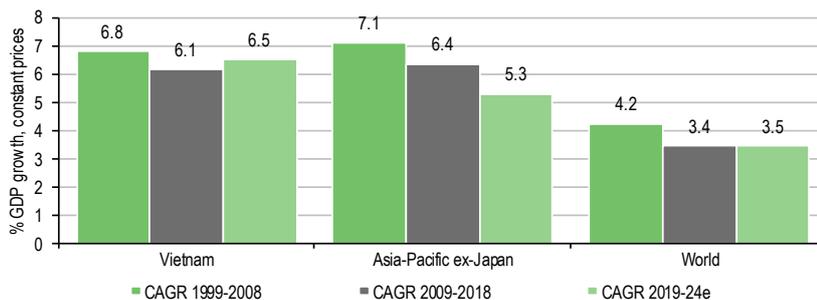


VietNam Holding

Weak sentiment provides opportunity

VietNam Holding (VNH) aims to generate long-term capital growth through investing in companies listed in Vietnam, employing a fundamental approach. The fund has undergone significant changes since September 2017, including the appointment of a new board and management company, to address previous governance and performance shortcomings. The wide discount to NAV partly reflects these historic issues, and has been amplified by weak investor appetite for Vietnam equities due to uncertainties such as the impact of the coronavirus outbreak. The restructured VNH may provide long-term investors with the opportunity to participate in Vietnam's strong medium- to long-term economic prospects, with the potential of a narrowing discount should some of the above concerns be alleviated.

Vietnam's economic growth is almost double that of the world



Source: IMF WEO October 2019, Edison Investment Research

The market opportunity

Vietnam is one of the fastest-growing economies in the world, according to International Monetary Fund forecasts. Although expectations are likely to be tempered in the short term by the coronavirus outbreak, the country has positive secular trends, including rising disposable incomes, urbanisation and industrialisation, which drive multi-year growth opportunities for its companies.

Why consider investing in VietNam Holding?

- The manager follows a rigorous investment process, with environmental, social and governance (ESG) considerations a key part of its approach.
- Mid- to small-cap focus gives investors exposure to less well-researched, high-growth companies.
- VNH has been restructured by a relatively new and proactive board, which is committed to promoting shareholders' interests.

Significant discount has scope to narrow

VNH's current 23.1% discount to its NAV is appreciably wider than the three-year average of 16.0%. The portfolio also has potential hidden value that is not fully reflected in the NAV, due to Vietnam's foreign ownership limit (FOL) rules. There are multiple drivers that may help the discount to narrow, including improved performance under the new manager, and a turnaround in investor sentiment.

Investment companies Vietnam equities

16 March 2020

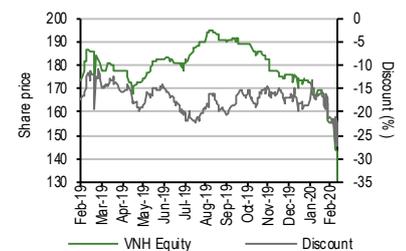
Price 132.5p
Market cap £67.4m
AUM £87.7m

NAV* 172.4p
 Discount to NAV 23.1%

*As at 13 March 2020.

Yield 0.0%
 Ordinary shares in issue 50.9m
 Code VNH
 Primary exchange LSE
 AIC sector Country Specialists: Asia Pacific

Share price/discount performance



Five-year performance vs index



52-week high/low 195.0p 131.0p
 NAV** high/low 241.7p 172.4p

**Including income.

Gearing

Gross* 0.0%
 Net cash* 1.7%

*As at 29 February 2020

Analysts

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**VietNam Holding is a research client
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Exhibit 1: Trust at a glance

Investment objective and fund background

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.

Recent developments

- 8 November 2019: Announced appointment of Hiroshi Funaki as chairman, replacing Sean Hurst, who takes on the role of senior independent director.
- 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.

Forthcoming

AGM	November 2020
Annual results	October 2020
Year end	30 June
Dividend paid	N/A

Capital structure

Ongoing charges	2.23%
Net cash	1.7%
Annual mgmt fee	Tiered (see page 8)
Performance fee	Yes (see page 8)

Fund details

Group	Dynam Capital Limited
Manager	Vu Quang Thinh, Craig Martin & team
Address	De Catapan House, Grange Road, St Peter Port, Guernsey, GY1 2QG

Launch date	30 June 2006
Continuation vote	Five yearly, next in 2023

Company life	Indefinite
Loan facilities	None

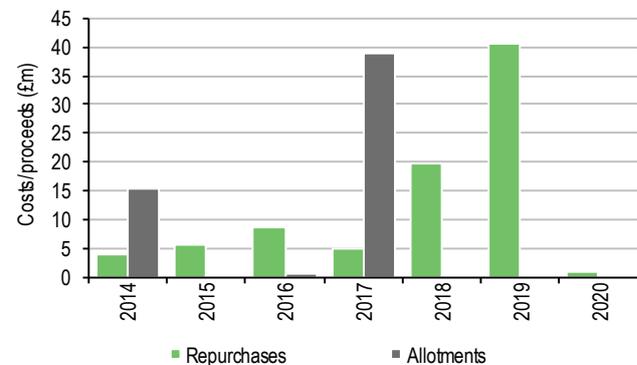
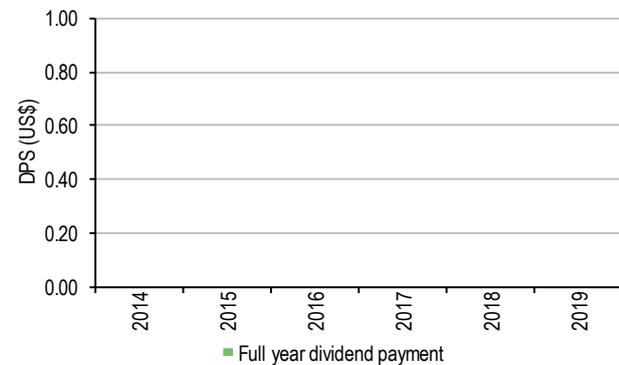
Phone	+8428 38277590
Website	www.dynamcapital.com

Dividend policy and history (financial years)

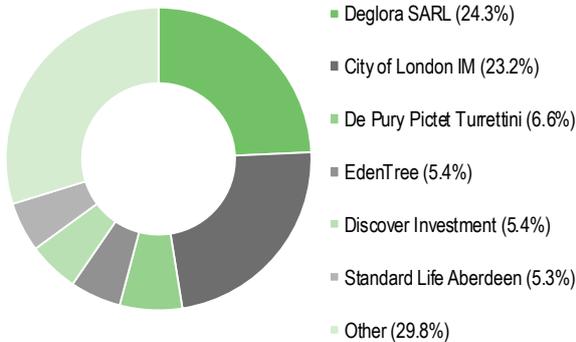
VNH's investment objective is to achieve capital growth and there is currently no intention to pay a regular dividend.

Share buyback policy and history (financial years)

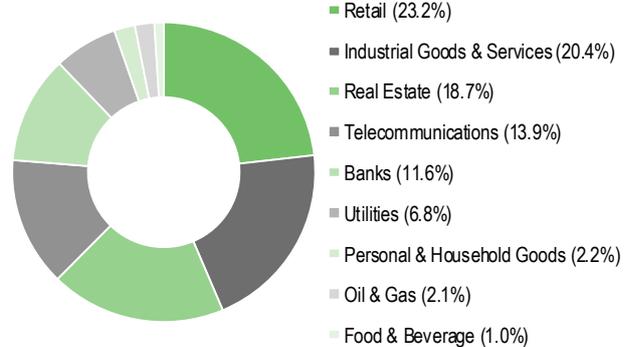
VNH's authority (renewable annually) to repurchase shares was increased from 10.00% to 14.99% in July 2018. Allotments to warrant holders.



Shareholder base (as at 4 March 2020)



Portfolio exposure by sector, adjusted for cash (as at 29 February 2020)



Top 10 holdings (as at 29 February 2020)

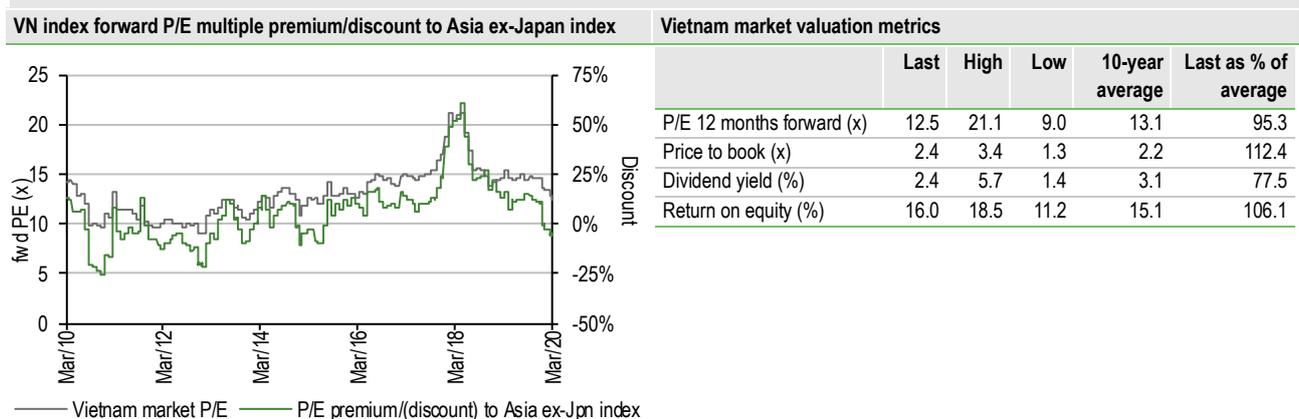
Company	Sector	Portfolio weight %		
		End-February 2020	End-February 2019*	Weight in VNAS Index %**
FPT Corp	Telecommunications	13.7	8.7	5.0
Phu Nhuan Jewelry	Retail	11.7	10.1	1.6
Mobile World	Retail	8.3	5.8	2.5
Military Commercial Bank	Banks	7.0	5.9	1.1
Khang Dien House	Real estate	6.0	7.4	(1.4)
Sai Gon Cargo Service Corp	Industrial goods & services	5.0	9.0	(4.0)
Hoa Phat Group	Industrial goods & services	4.8	7.2	(2.4)
ABA Cooltrans	Industrial goods & services	4.7	N/A	N/A
Dat Xanh Real Estate	Real estate	4.3	N/A	N/A
Vincom Retail	Real estate	3.7	N/A	N/A
Top 10 (% of portfolio)			69.2	70.8

Source: VNH, Edison Investment Research, Bloomberg, Morningstar, Refinitiv. Note: *N/A where not in end-February 2019 top 10.

Market outlook: Uncertainty favours the brave

The outlook for Vietnamese equities is currently clouded by uncertainty related to the coronavirus epidemic. Fears for a synchronised global recession at the start of 2019 had led central banks to reverse stances to withdraw liquidity and shrink balance sheets, instead resuming accommodative monetary policies. The US Federal Reserve cut interest rates three times, and the People’s Bank of China and the European Central Bank also undertook stimulus measures. Towards the end of the year, there were positive signs of economic stabilisation and recovery, including an improvement in global PMIs. Inventories around the world were at unusually low levels, which would normally augur well for Vietnam’s open economy. However, just as global economies seemed poised for recovery, the coronavirus outbreak came to light in January, in Wuhan, China, significantly disrupting manufacturing activity and consumption globally. Vietnam’s economic growth this year will be dented – manufacturing accounts for around 16% of the country’s GDP, while China, Korea and Japan represent over 30% of its total exports. However, it is too early to gauge the full impact from the virus, and what further government responses may be. As shown in Exhibit 2 (LHS), Vietnamese equity valuations have corrected meaningfully since the beginning of the year and now trade at a discount to Asian equities, having typically commanded a premium over the past several years. The country’s long-term economic prospects, however, remain very positive and the IMF forecasts its growth over 2019–24 to be among the fastest in Asia, and to accelerate compared to the previous 10-year period (see front page chart). The current market setback may thus provide an entry opportunity for long-term investors.

Exhibit 2: Vietnamese market valuation metrics



Source: Refinitiv, Bloomberg, Edison Investment Research. Note: Index valuations at 9 March 2019.

Fund profile: Fundamental and ESG aware

VNH was launched in April 2006 as a closed-ended fund, incorporated in the Cayman Islands and listed on AIM. It changed its legal domicile to Guernsey in February 2019, de-listed from AIM and was admitted to the Main Market of the London Stock Exchange in March 2019. The fund has been managed by Dynam Capital since July 2018, replacing the previous manager VNH Asset Management, which had been in place since VNH’s inception.

The fund’s objective is to generate long-term capital appreciation through investing in a relatively concentrated, yet diversified portfolio of c 20–25 companies that have high growth potential at attractive valuations. The disciplined investment approach is both bottom up and top down, with ESG considerations a part of the process. The company has been a signatory of the Principles of Responsible Investment (PRI) for over a decade, and adopts its guidelines to exclude certain investments, such as companies with significant exposure to alcohol and tobacco, and those that

do not commit to reducing, in a measurable way, pollution and environmental problems arising from their business activities. Gearing is permitted up to 25% of NAV; however, VNH has historically not used this capability. The fund is also able to invest up to 20% of NAV in private companies; it currently has one unlisted holding accounting for less than 5% of the portfolio.

The fund manager: Dynam Capital team

The manager's view: Outstanding long-term prospects

The manager believes the coronavirus outbreak will have a meaningful and negative impact on Vietnam's GDP growth in 2020. The team's prior expectations for 7% growth this year will be cut, but there remains much uncertainty on the duration and impact of the virus. However, in Dynam's view, when normality returns, there is likely to be a rapid rebound in domestic confidence, which should be reflected favourably in the domestic stock markets. The manager notes that Vietnam's economy was robust prior to the outbreak, with record levels of foreign currency reserves, and this should help provide a buffer to some of the short-term impacts.

The team is focused on the longer term, and believes Vietnam has outstanding economic prospects. The economy is one of the fastest growing in the world, and Dynam expects it to be one of the largest 20 in the world by 2050. The manager identifies three key secular growth trends – rising incomes, urbanisation and industrialisation, and believes these underpin excellent long-term opportunities for investing in Vietnam. The team notes that the country's GDP per capita, at c \$3,000, is typically the inflexion point for acceleration.

Following a correction in Vietnamese equities, the manager believes that the market is attractively valued at a forward P/E multiple of c 11x (excluding outliers). Dynam also believes there is considerable hidden value in the NAV of the fund because nearly half of the portfolio is held in stocks that have reached their foreign ownership limit (FOL). When this limit is reached, foreign buyers often offer a premium to the listed share price; however, NAVs must use the quoted price. Premiums for FOL companies currently range between c 7% and c 30%.

Asset allocation

Investment process: Rigorous analysis, company engagement

The manager follows a rigorous fundamental investment process, unconstrained by any index, to invest in a relatively concentrated portfolio of 20–25 of its highest-conviction stocks. Dynam employs both bottom-up and top-down analysis in its investment approach. The team is looking for companies that are well-managed industry leaders with a strong competitive position and healthy balance sheets, yet which are attractively valued. ESG assessments are integrated into the company analysis and the manager believes firms that score highly on this front tend to outperform over the long term. Engagement with managements is important and Dynam seeks to add value to a company by advising it in areas such as improving corporate governance, board restructuring and training, and raising awareness of environmental and social initiatives. Dynam believes its active approach to ESG differentiates VNH from many Vietnamese equity products and that it is a thought-leader within the country. CIO Vu Quang Think leads Dynam's company engagement process. Also a member of the Vietnam Institute of Directors, he is held in high regard in business circles on ESG matters in Vietnam.

The manager is typically biased in favour of small- and mid-cap companies, as these are often less well researched and more open to engagement. VNH's relatively small size gives it the flexibility to invest in companies further down the market capitalisation spectrum, and around half of the portfolio is held in sub-\$1bn companies. As a signatory of the PRI, the fund follows its guidelines

which exclude certain investments, including companies with significant revenues from alcohol, tobacco, armaments and gambling. The fund will also not invest in companies that do not commit to reducing pollution and environmental problems caused by their business activities.

Current portfolio positioning

Exhibit 3 shows VNH's exposure as at end-February 2020 and changes over the previous year. The most notable increase is to the utilities sector (6.7pp). This includes the purchase of two water supply companies, Thu Dau Mot Water (TDM) and Binh Duong Water-Environment (BWE). Both companies operate in the south-east region of the country, serving the economic hinterland of the capital, Ho Chi Minh City (HCMC). A large number of industrial economic zones are located in this area, which receives significant foreign direct investment (FDI), particularly from Japanese and Korean multinationals. In the manager's view, this economic area is one of the fastest growing in Vietnam, and is well placed to receive infrastructure investment, especially as Dynam expects global manufacturers to accelerate geographical diversification efforts to reduce their dependency on China.

The manager also added a new position in Gemadept, one of the first companies to list in Vietnam in 2002. Gemadept operates seven ports across the north and south of the country, and is currently developing Vietnam's largest deep-water container port to serve the fast-growing HCMC and Mekong Delta area. The company also has a logistics business, which includes nationwide transportation and distribution centres. The Dynam team believes Gemadept has the scale and capacity to benefit from the country's rapid economic growth.

The team has also turned more positive on Vietnam banks, introducing three banks to the portfolio: Vietcombank (VCB), VPBank (VPB) and Vietinbank (CTG). In the manager's view, the sector's overall balance sheet health has improved as a result of preparation for compliance with Basel II requirements. Dynam believes banks represent a leveraged exposure to Vietnam's economic growth prospects, and expects the three banks to have robust earnings growth prospects over the medium term.

Exhibit 3: Portfolio sector exposure at 29 February 2020						
% unless stated	Portfolio 29 Feb 2020	Portfolio 28 Feb 2019	Change (pp)	VNAS index weight	Active weight vs index (pp)	Company weight/ index weight (x)
Retail	22.8	21.2	1.6	5.4	17.4	4.2
Industrial Goods & Services	20.1	17.7	2.4	7.7	12.3	2.6
Real Estate	18.4	20.5	(2.1)	27.7	(9.3)	0.7
Telecommunications	13.7	8.7	5.0	3.1	10.6	4.4
Banks	11.4	9.7	1.7	25.0	(13.6)	0.5
Utilities	6.7	0.0	6.7	1.2	5.5	5.4
Personal & Household Goods	2.2	1.3	0.9	0.9	1.3	2.4
Oil & Gas	2.0	3.9	(1.8)	2.0	0.0	1.0
Food & Beverage	1.0	0.6	0.4	12.8	(11.8)	0.1
Financial Services	0.0	6.6	(6.6)	4.8	(4.8)	0.0
Travel & Leisure	0.0	8.1	(8.1)	3.7	(3.7)	0.0
Other sectors	0.0	0.0	0.0	5.3	(2.3)	0.1
Cash	1.7	1.6	0.1	0.0		
	100.0	100.0		100.0		

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

The largest sector decline over the past 12 months is to travel & leisure (-8.1pp). This includes the sale of budget airline, VietJet. The company launched its services in 2011, and performed well in an oligopoly environment, capturing around 45% of the passenger aviation market. However, the manager notes that the competitive landscape has deteriorated recently with two new entrants.

The manager has also trimmed stationery manufacturer and supplier Thien Long. The company is Vietnam's largest school and office stationery provider with over 110 distributors, and exports to over 60 countries. The team continues to believe the firm has a solid and well-managed business;

however, it considers the company's growth prospects over the next few years to be lacklustre, compared with investment opportunities elsewhere.

Performance: Affected by transition issues

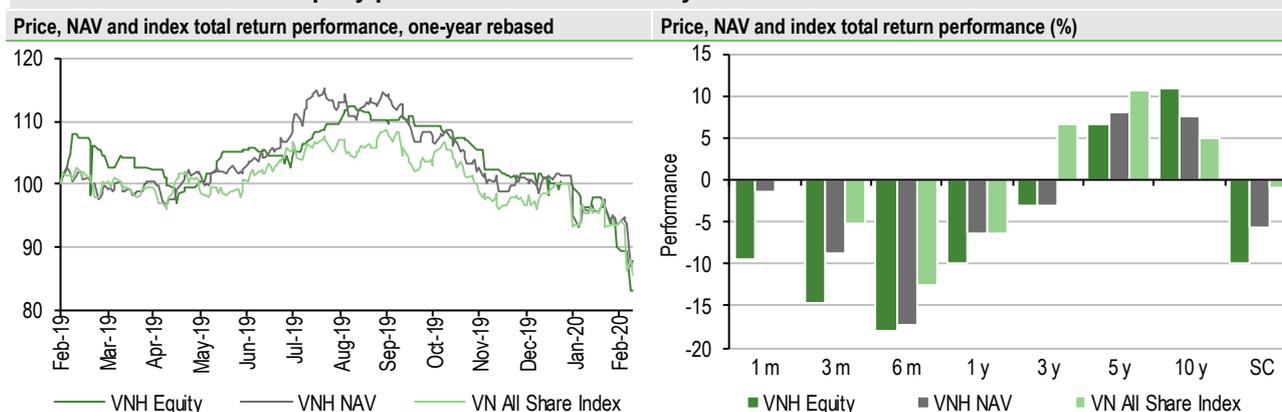
The current manager, Dynam Capital, was appointed in July 2018; therefore the most relevant performance numbers to consider are for one year and less, and since change (SC). As shown in Exhibits 5 and 6, VNH's NAV total return over one year has been flat relative to the VN All-Share Index. Since the change of manager, the fund has underperformed, partly reflecting some transition-related issues. Shortly after the appointment of Dynam Capital, the board conducted a tender offer for up to 15% of issued equity, requiring the manager to provide liquidity to accommodate repurchases. This represented a distraction from the day-to-day investing activities for the team. Furthermore, the new manager inherited two illiquid holdings it did not wish to keep: Yeah1 and VietCapital Securities. These disposals were the largest detractors to relative performance since change. Performance for periods less than one year have also lagged the index; however, the manager has a long-term investment horizon and is not influenced by short-term numbers.

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 (%)
29/02/16	14.8	20.6	4.0	0.9	(14.8)
28/02/17	31.8	33.2	31.9	31.5	45.5
28/02/18	22.8	15.5	42.5	53.9	18.3
28/02/19	(17.9)	(15.7)	(9.4)	(14.2)	(6.3)
29/02/20	(10.0)	(6.5)	(6.5)	(4.9)	2.6

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

Exhibit 5: Investment company performance to 29 February 2020



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

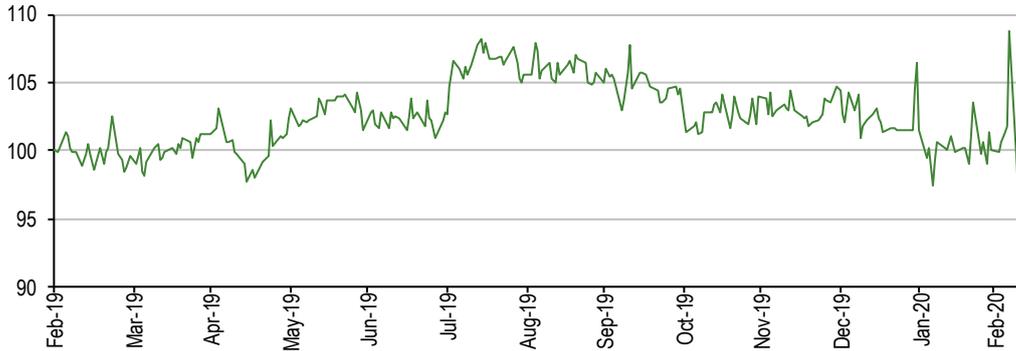
Exhibit 6: Share price and NAV total return performance, relative to indices (%)

	Three months	Six months	One year	Three years	Five years	10 years	SC*
Price relative to Vietnam VN All Share index	(10.1)	(6.0)	(3.8)	(24.9)	(17.2)	72.3	(14.4)
NAV relative to Vietnam VN All Share index	(3.8)	(5.3)	0.0	(24.6)	(11.7)	27.1	(7.5)
Price relative to Vietnam VN30 index	(11.4)	(7.9)	(5.4)	(27.8)	(17.7)	45.1	(13.0)
NAV relative to Vietnam VN30 index	(5.2)	(7.2)	(1.7)	(27.5)	(12.3)	7.1	(6.0)
Price relative to MSCI Emerging Markets	(13.3)	(16.4)	(12.3)	(20.2)	(2.7)	65.4	(16.5)
NAV relative to MSCI Emerging Markets	(7.3)	(15.8)	(8.8)	(19.8)	3.8	22.0	(9.8)

Source: Bloomberg, Dynam Capital, Edison Investment Research. Note: Data to end-February 2020. Note: Geometric 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 one year

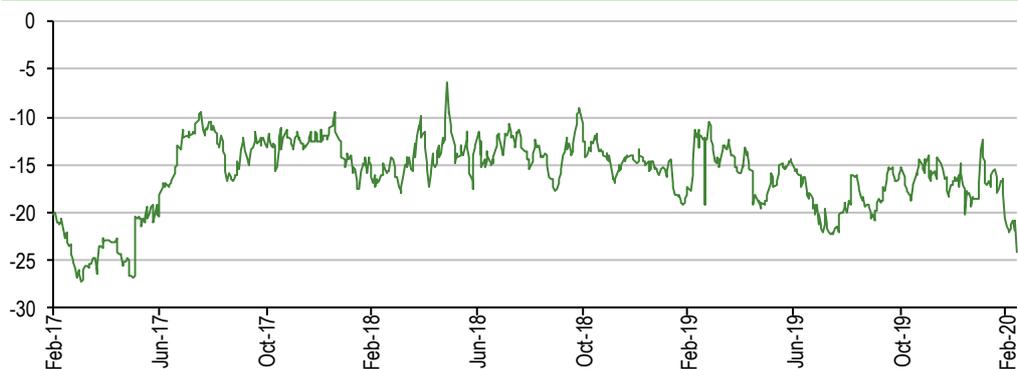


Source: Refinitiv, Edison Investment Research

Discount: Significant discount has scope to narrow

VNH trades at a 23.1% discount to its total return NAV, which is considerably wider than its three-year average of 16.0%, partly reflecting the relatively short tenure of the new manager, and the company's historic governance issues associated with the previous board and management company (discussed in our [initiation report](#)). It also reflects investors' lowered risk appetite in the current uncertain environment, which has resulted in wider discounts across the peer group since the outbreak of the coronavirus. A new board was appointed in September 2017 and is committed to narrowing VNH's discount and promoting the interests of shareholders. It has made significant changes to address the fund's previous shortcomings and broaden its appeal to shareholders; these include the appointment of the current manager, a reduction in the management fee, the change of the fund's domicile, and re-listing on the Main Market of the London Stock Exchange. These changes, combined with increased market efforts and improved sentiment towards Vietnam equities, may help VNH's discount to narrow. The board has the authority (renewed annually) to repurchase up to 14.99% of shares outstanding.

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 50.9m shares in issue and none held in treasury. During FY19, the company repurchased 14.7m shares at a total cost of £40.7m. This included a tender offer for 15% of issued shares, which resulted in the repurchase and cancellation of 9.7m shares at \$2.72 per share. Repurchases to

date during FY20 have been modest at 0.4m shares. Gearing is permitted up to 25% of the NAV; however, VNH has not used this capability and there is presently no loan facility in place. As at end-February 2020, the fund had a net cash position of 1.7% of NAV.

Dynam Capital receives an annual management fee of 1.5% of NAV for assets up to \$300m, which would be reduced to 1.25% on assets between \$300m and \$600m, and then 1.0% on assets above \$600m. There is an incentive fee of 12% of the excess performance in each financial year over an 8% compound hurdle, starting with a high-water mark as of 30 June 2018, capped at 3% of NAV in any financial year. As at end-June 2019, VNH's ongoing charges ratio was 2.23%, lower than 2.69% the previous year.

Dividend policy and record

VNH's objective is to generate capital growth over the medium and long term, rather than income. No dividends have been paid by the fund since its inception.

Peer group comparison

Exhibit 9 shows the 10 members of the AIC Country Specialists – Asia Pacific sector (funds with a market capitalisation above £70m). This is a diverse group of funds, investing in countries across a wide range of economic development stages. Therefore, we also present the averages for the Vietnam subgroup. VNH is one of the smaller funds in the sector, and the smallest among its Vietnam peers. As the current manager was appointed in July 2018, the one-year NAV total return is the most relevant, where it ranks eighth. Its ongoing charges are the second highest and it is one of five funds that do not pay a dividend, reflecting its focus on capital growth. VNH's discount to its cum-fair NAV is one of the widest in the peer group, but ranks second for the Vietnam funds. Discounts across the peer group have widened since the coronavirus outbreak, reflecting increased investor risk aversion during uncertain times.

Exhibit 9: Country specialists – Asia Pacific peer group as at 13 March 2020*										
% 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	67.4	(5.1)	(7.6)	48.2	108.2	(23.3)	2.2	Yes	100	0.0
Aberdeen New India	232.5	7.8	13.2	34.9	137.5	(12.4)	1.2	No	109	0.0
Aberdeen New Thai	68.4	(17.0)	(7.2)	6.1	192.3	(7.3)	1.3	No	113	4.6
Fidelity China Special Situations	1,161.8	4.9	22.0	75.2		(10.5)	0.9	Yes	124	1.8
India Capital Growth	60.8	(9.7)	(18.4)	10.6	38.2	(23.1)	2.0	No	100	0.0
JPMorgan China Growth & Income	241.4	29.6	60.7	94.7	197.0	(8.6)	1.3	No	112	4.4
JPMorgan Indian	632.7	6.0	2.4	20.7	83.0	(5.6)	1.1	No	103	0.0
Vietnam Enterprise Investments	776.3	(1.4)	29.2	117.6	199.9	(18.9)	2.3	No	100	0.0
VinaCapital Vietnam Opportunity Fund	451.4	(4.3)	11.3	84.6	148.4	(27.9)	1.7	Yes	100	3.4
Weiss Korea Opportunity	108.6	0.6	(2.2)	26.8		(8.9)	1.9	No	100	3.1
Peer group average	380.1	1.1	10.3	52.0	138.1	(14.6)	1.6		106	1.7
Rank in peer group	9	8	9	5	6	9	2		6	6
Vietnam subgroup average	431.7	(3.6)	10.9	83.5	152.2	(23.4)	2.0		100	1.1
Rank in subgroup	3	3	3	3	3	2	2		1	2

Source: Morningstar, Bloomberg, Edison Investment Research. Note: *Performance data to end-February 2020. 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. Hiroshi Funaki has recently been appointed chairman in November 2019, taking over from Sean Hurst, who now serves as the senior independent director. Damien Pierron and Philip Scales were also appointed in 2017. Saiko Tajima was appointed in May 2019. The board has a breadth and depth of skills, including asset management, private equity and investment banking.

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