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City of London pounces on Vietnam trust amid board shake-up

By **Daniel Grote** / 26 Sep, 2017

Renowned activist investor City of London Investment Management has pounced on shares in the **Vietnam Holding** (VNHq) investment company, as pressure from shareholders forced an overhaul of the board.

City of London has a long history of targeting investment trusts and closed-end funds trading on big discounts to net asset value, particularly those focused on emerging markets.

Its latest target is Vietnam Holding, having ramped up a longstanding holding to reach a 11% stake in the £123 million investment company and become its largest shareholder.

City of London's pounce comes as a shareholder rebellion forced a shake-up of the board at the investment trust.

Vietnam Holding said it had been approached by 'a party purporting to speak for certain VNH shareholders' claiming to have gathered support from 40% of investors to vote against the board's re-election ahead of its annual general meeting (AGM) last week.

City of London did not drive the shareholder rebellion, although it supported the changes to the board.

The move led to directors Min-Hwa Kupfer, Rolf Dubs and Nhuyen Quoc Khanh retiring after 11 years ahead of a vote at Friday's AGM.

They were replaced by Milton Lawson, a lawyer practising in Vietnam for the last 20 years; Philip Scales, a specialist in establishing offshore closed-end fund structures; and Hiroshi Funaki, former head of the investment companies team at Edmond de Rothschild Securities.

Simon Westlake at City of London said the group supported the changes, highlighting Scales as 'a successful problem solver'.

He added that there was 'no particular angle' to its stake in Vietnam Holding, but that 'a significant amount of stock became available'.

City of London built up its stake by snapping up warrants on the shares traded on the secondary market. In June 2015 Vietnam Holdings issued warrants to shareholders giving them the right to buy one new share for every three they owned, at a price of $1.998.

The vast bulk of these warrants were exercised in June, at a discount to the then $2.15 share price, resulting in a 8.4% dilution to the value of each share. The board indicated it would not issue shares on a dilutive basis in future.

Jay Vontobel, head of business development at Vietnam Holding Asset Management, managers of the company, said he was engaging with shareholders and the new board. He acknowledged investors' concerns that the relationship with the previous board 'may have gone cosy'.

He said another key area of concern among shareholders was over the charges levied by the fund group. The base fee is set at 2% for the first $100 million of assets, 1.75% on the next $50 million of assets and 1.5% on assets over $150 million.

After new shares were issued in June following the exercise of warrants held by shareholders, the company now has a market value of $165 million (£123 million).

The managers also levy a performance charge of 15% of returns above 5% a year, capped at 3% of assets.

Vontobel acknowledged that 'the fee is too high and we're no longer where the market is'.

'Overall the fee structure is something we want to revisit,' he said.

Over the last 12 months, the shares are down 2% while the Vietnamese stock market has rallied 21.4% in dollar terms. Over the same period, shares in its larger rivals **Vietnam Enterprise Investments** (VEIL) and **VinaCapital Vietnam Opportunity** (VOF) are up 35% and 26.9% respectively.

'Our portfolio took a bit of a battering this year,' said Vontobel.

Chief executive Vu QuangThinh said some of the divergence of performance between large and mid-caps had been driven by high-profile initial public offerings (IPOs) of large cap companies.

Flotations such as that of brewer Sabeco and the Airport Corporation of Vietnam have excited investors, and shaken up Vietnam's stock market, with both companies now among the country's 10 largest.

But Vu has eschewed many of these IPOs, arguing companies were being brought to market at exorbitant valuations.

A potential catalyst for a recovery in performance could lie in growing earnings per share, he said. EPS for the fund rose 10.6% this year, weighed down by share issuance from some of the companies in the portfolio. However, he said estimates pointed to growth being as high as 21.6% next year.