VIETNAM HOLDING (VNH, US$2.37625)

One of a surprising number of Vietnam trusts listed in London, VNH is actually the smallest with a market capitalisation of US$172m. It is still a sizeable trust, and has a lengthy track record now, having listed on the AIM back in 2006. Its managers, who spoke to us a couple of weeks ago, take a bottom-up value investment approach that seems very sensible in what is very much a developing market.

That is perhaps the most important point to make here, that the Vietnamese market has changed considerably of late. There has been a big step in its evolution as IPOs have boomed. The government essentially triggered a flood of new issuance by issuing a deadline for listings and also liberalising ownership restrictions, with the result that 50% of the top 30 stocks are set to change this year. This is a big structural shift, but not one the managers of VNH have been keen to participate in. They have steered well clear of most IPOs on valuation grounds, and while large caps have surged higher, VNH has underperformed over the last year because it has a greater exposure to sensibly-valued mid caps, representing about two-thirds of the portfolio. The managers believe there is a significant valuation advantage for smaller stocks now, and that the portfolio is well positioned for outperformance.

Listening to the managers explain their approach, there is much to like. They visit companies every quarter to update their valuation models, hunt for consistent revenue and earnings growth, and are quite happy to buy unfashionable companies. They talked us through their 2013 investment in Thien Long Group, which is a producer and distributor of pens and office supplies, which was small and illiquid at the time. The shares have since performed very strongly as the company has maintained profit growth of more than 20% per year, eventually making the shares a ten-bagger for the trust.

One major development on the slightly distant horizon that could encourage far greater demand for Vietnamese equities would be the country's promotion from MSCI Frontier Markets to MSCI Emerging Markets, which could happen. The VNH managers say that positive developments around GDP growth, tamed inflation, and increasing foreign direct investment have provided fertile ground for voices advocating Vietnam's promotion. Some issued have not yet been fully addressed, but their timeline for possible MSCI Emerging Markets inclusion suggests that this could happen in 2021.

Until then, VNH will continue with its careful value investment, which is difficult to argue against on a long-term basis. Clearly though this means the trust can miss out on returns during some of the most exciting periods, and we do wonder whether investors might continue to prefer larger stocks as more newcomers arrive to invest in Vietnam. We also have a question mark over the charges for this trust, which seem very high at 2% for the first US$100m, falling to 1.75% and 1.5%, plus a performance fee on top.

STOCKBROKERS RESEARCH

We only have room for some shorter summaries this month. JPMorgan Cazenove was sufficiently impressed by improved interim results from **The Mercantile Trust** (MRC, 2067p) to upgrade its rating from 'underweight' to 'neutral'. The broker was encouraged to see that performance was driven by both sound stock selection and asset allocation and noted as well that the discount has remained a little wider than the sector average. In the same sector, **JPMorgan Mid Cap** (JMF, 1124.5p) was similarly upgraded for much the same reasons. Going the other way was **Pacific Assets Trust** (PAC, 256p), which JPMorgan Cazenove has downgraded from 'overweight' to 'neutral.' The broker said that its shares were "materially more expensive" than peers at a time when its relative NAV performance has declined. The broker has also downgraded **ICG-Longbow Senior Secured UK Property Debt Investments** (LBOW, 102.625p) from 'neutral' to 'underweight' in view of uncertainty about its future portfolio.

Winterflood has examined **SQN Asset Finance Income*** (SQN, 99p), which ran into trouble with its holding in Suniva, which represented 6.8% of assets. This US solar manufacturer entered bankruptcy in April, but the trust should now be able to recover the value of its loan. The broker says "we think that the fund's de-rating now looks to have been overdone. With its ordinary shares trading at only a 1% premium to NAV and offering a prospective dividend yield of 7.25%, we think that this represents a buying opportunity and we are adding them to the fixed income allocation of our model portfolio."

Stifel upgraded **3i Infrastructure** (3IN, 197.55p) to 'buy' on September 22nd, saying that "the price has eased down recently, and if the sales of Elenia or AWG, or indeed both come to fruition, there could be a meaningful uplift in these valuations and an NAV increase. These two investments combined were 40% of NAV at 31/03/17. If a significant cash pile arises post-realisation, a return of capital to investors may be on the cards. We also like the non-concession nature of the portfolio, with companies having undated revenue streams. The dividend yield of 4.1% plus the prospect of some capital growth make the shares attractive."

Numis made three additions to its recommended list for alternative asset investment companies this quarter, with one fund removed. Each of the additions are trading buys, namely **P2P Global Investments** (P2P, 780p) on a wide discount of more than 20%; **Electra**