

16 May 2017

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Fund Details

Ticker	VNH
Share Price	US\$2.176
NAV (diluted)	US\$2.637
NAV (undiluted)	US\$2.867
Current Discount #	17.5%
12m Avg Discount #	19.4%
Market Cap	US\$118m
Ords in Issue	54.3m
Warrants in issue	19.4m
Dividend Yield	0.0%
Ongoing Charges	2.84%
Domicile	Cayman Islands
Sector	Asia – Single Country

Source: Thomson Reuters, Bloomberg, Morningstar

Data as at 12 May 2017

Using the diluted NAV

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VietNam Holding*

Value approach with focus on mid-cap

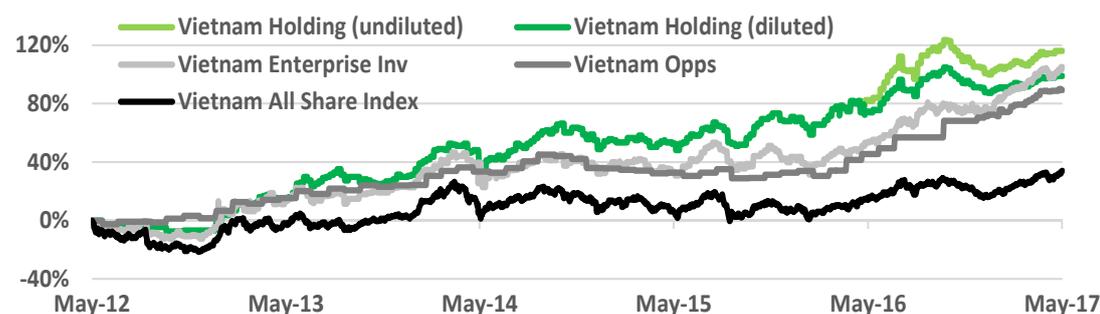
We recently met with Vu Quang Thinh and Jay Vontobel from the fund's manager, VietNam Holding Asset Management, and the fund's Chairperson, Min-Hwa Kupfer. In this note we provide an update on the fund.

- **Unconstrained value approach** – VietNam Holding is differentiated from its peers by its value approach, which has a bias towards mid and small-cap stocks. Construction of the high conviction portfolio (typically 20-35 stocks) is not constrained by index weightings. In addition, sustainable investment is also at the core of the managers' investment philosophy. Through active engagement the manager aims to improve investee companies' environmental, social and governance (ESG) performance, which it believes ultimately increases returns to investors.
- **Good long-term performance** – VietNam Holding has a good long-term performance record, outperforming both of its London-listed peers and the Vietnam All Share Index over the last five years, on an undiluted NAV basis, which better reflects the manager's performance.
- **Warrant expiry** – On 1 June 2017 warrant holders have a final opportunity to exercise their warrants and subscribe for new ordinary shares. While the exercise of warrants, which were issued on a 1-for-3 basis, will have a dilutive effect on the NAV, there is potential for other benefits to ordinary shareholders from warrants being exercised. In our opinion these include the increased size of the fund (potentially from its current net assets of US\$143m to US\$182m) leading to a reduction in ongoing charges, due to spreading fixed costs across a larger capital base as well as the tiered fee structure, and improved liquidity.

Winterflood View

Vietnam continues to generate significant interest from investors attracted to its growth potential. VietNam Holding benefits from an experienced, well-resourced investment team and we think that their 'on-the-ground' presence is beneficial. The manager's value approach has delivered good returns against both its London-listed peers and the index. The fund's warrants are currently 'in the money' and we would therefore expect holders to exercise their subscription rights, although, as tends to be the case, there will inevitably be a proportion that are not exercised. Warrants that are not exercised will be left to an independent trustee to make the decision as to whether the subscription rights are exercised. This can have the effect of acting as an overhang, depressing the share price, as if the trustee decides to exercise the rights then they will sell the resulting ordinary shares in the market and return net proceeds to warrant holders. This effect tends to be short lived but can represent an attractive entry point into a fund. In addition we would highlight the fund's active share buyback programme, which has mitigated downside discount risk over recent years.

5 Year NAV Performance



Source: Winterflood Securities, Thomson Reuters, Bloomberg

Background & Investment Approach

Launched in 2006

VietNam Holding was launched in June 2006 and is listed on AIM. The fund is managed by VietNam Holding Asset Management, which has offices in Vietnam and Switzerland. There are eleven people working in the investment team. The fund was originally launched to invest in the privatisation of State Owned Enterprises (SOEs) in Vietnam. Since then the portfolio has grown and has diversified as the market in Vietnam has developed.

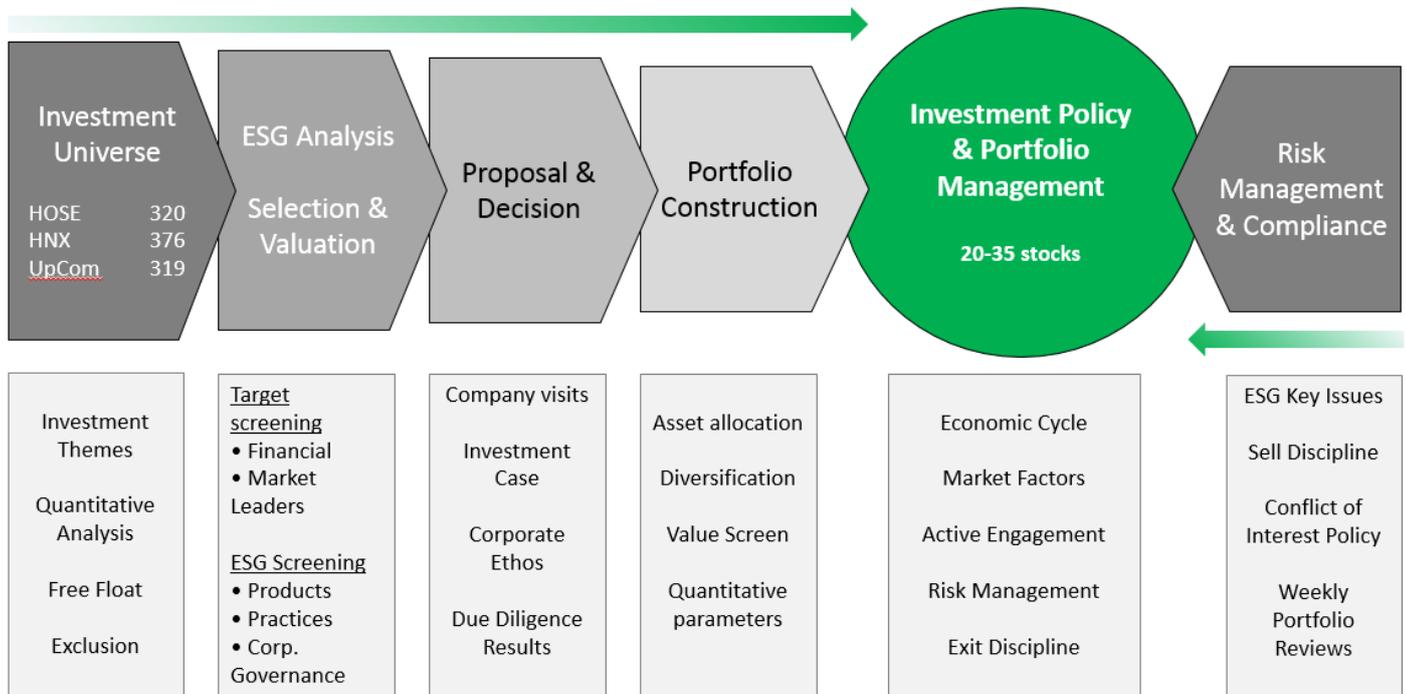
ESG issues important to strategy

Sustainable investment is at the core of the managers' investment philosophy, with the fund signing up to the UN's Principles for Responsible Investing. In practice this means that investment decisions are made through a combination of financial analysis and evaluating material environmental, social and governance (ESG) issues. Through active engagement the managers aim to improve investee companies' ESG performance, which they believe ultimately increases returns to investors.

Value approach with bias towards mid and small-cap stocks

The team uses a value investment approach to select a high conviction portfolio of 20-35 stocks, which they believe will offer superior long-term EPS growth. There is also a focus on strong balance sheet and cash flow management. The manager has a preference for industry leaders with high barriers to entry.

Investment Process



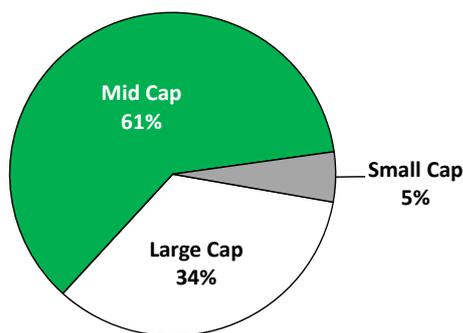
Source: VietNam Holding AM

Portfolio

Bottom-up stock selection

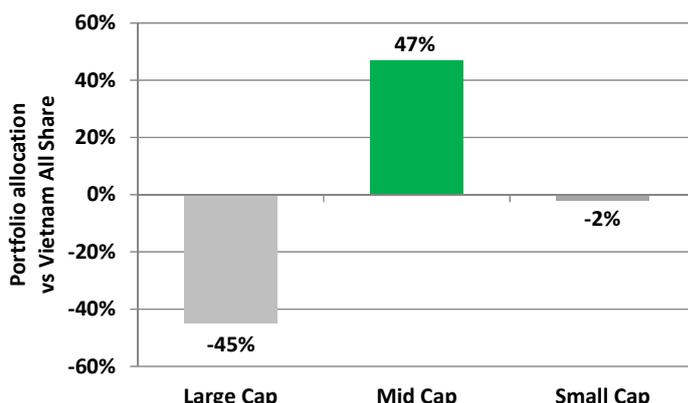
Stock selection is independent of any index and the fund has a bias towards mid and small-cap companies, which currently represent around two-thirds of the portfolio. The team also tries to identify growth trends and select stocks which fit in with these themes, such as domestic consumption and urbanisation. These two broad themes of urbanisation and domestic consumer growth each represent approximately 40% of the portfolio.

Portfolio by market capitalisation



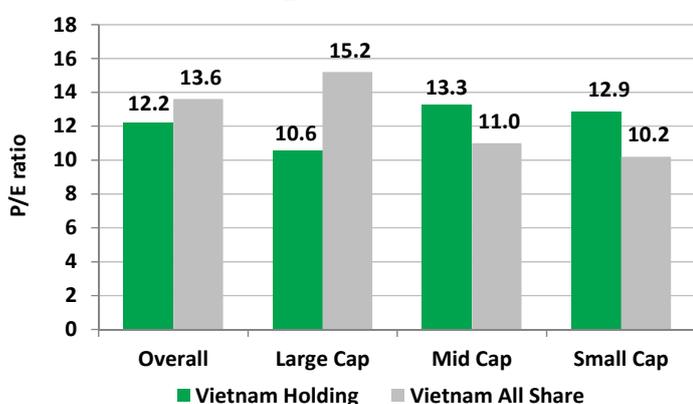
Source: The Company at 31 March 2017

Portfolio vs Vietnam All Share by market segment



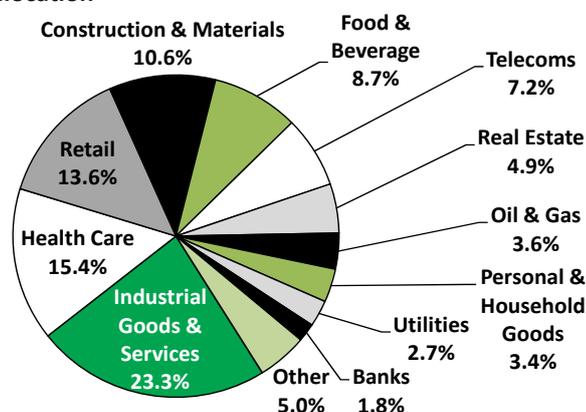
Source: VietNam Holding AM at 31 December 2016

Valuations by market segment



Source: VietNam Holding AM at 31 March 2017

Sector Allocation



Source: VietNam Holding AM at 31 March 2017

Largest allocation to Industrial Goods & Services

The manager has been adding to the fund's largest sector allocation, Industrial Goods & Services (23.3%), through holdings such as **PetroVietnam Transportation**, and a rotation out of some of the fund's Real Estate (4.9%) positions. The fund also has significant allocations to Health Care (15.4%), which is overweight compared with the index, and Retail (13.6%). Only one bank is held in the portfolio and the weighting to the Banks sector is therefore relatively low at just 1.8%.

Limited exposure to Agribusiness theme currently

In the past the fund has also had an allocation to agribusiness, but the manager notes that there are currently limited opportunities that fit this theme. Many companies in the sector have been negatively impacted by poor weather conditions and growth has been relatively sluggish. The sector is also undergoing consolidation and the fund has had a number of holdings taken out through M&A activity.

Relatively concentrated portfolio

The portfolio is relatively concentrated with just 27 holdings and 61.9% of NAV invested in the top 10. **PetroVietnam Transportation** (3.6% of NAV), which is a subsidiary of PetroVietnam focusing on oil & gas transportation, was recently added to the portfolio. The manager believes that the new Nghi Son refinery could potentially double the opportunities for crude and oil product transportation from 2018-19. He therefore views the current valuation as attractive and expects the company to benefit from Vietnam's economic growth.

Vietnam Dairy Products exposure trimmed

Vinh Hoan Corp (3.2%), which processes and trades seafood, was also recently added to the portfolio. Exposure to **Vietnam Dairy Products** (3.3%) has been trimmed following a very strong year in 2016. The manager notes that the company is trading on a relatively high valuation and he expects margins to revert to the mean.

Top Ten Holdings

Company	Sector	Description	Market Cap (£)	% NAV
Traphaco	Healthcare	Primarily manufactures, trades, imports and exports pharmaceutical products, cosmetics, materials, medical equipment, medicinal foods and wine, among others. The company also trades, plants and processes medicinal herbs, as well as offers technology consultation services in the medicinal and pharmaceutical sectors.	144	12.4
Phu Nhuan Jewelry	Consumer Discretionary	Jewellery manufacturer selling to wholesalers as well as through its own shops.	261	7.4
FPT Corp	Consumer Discretionary	Provides services in mobile distribution, systems integration, software outsourcing and development, Internet and e-media content, and computer assembly.	762	7.2
Binh Minh Plastics	Materials	Manufactures plastic pipe.	328	7.2
Thien Long Group	Consumer Discretionary	Manufactures office supplies, including pens, pen refills, files, markers, crayons, oil pastels, water colours, poster colours, pencils, glue, and rulers.	144	6.2
Vietnam Container Shipping	Industrials	Offers port management, container warehousing and storage, cargo handling, freight forwarding and maritime brokerage, and inland transportation services.	92	6.1
Hoa Phat Group	Materials	Manufactures a wide range of products, including steel, steel pipe, furniture, and refrigeration equipment.	1,354	5.4
PetroVietnam Transportation	Industrials	Provides transportation services for petroleum and petrochemicals products. The company offers maritime logistic services for crude oil, inland transportation of goods, and also maintains chartering and agency services, maintenance work for marine vehicles, and trading of parts, and supplies for maritime fleets.	126	3.6
Vietnam Dairy Products	Consumer Staples	Produces milk, condensed milk, milk powder, yoghurt, ice cream and cheese. Vietnam Dairy Products also produces cookies, coffee and tea and bottled water.	7,296	3.3
Vinh Hoan Corp	Consumer Staples	Seafood trading and processing company. Its main products are catfish and basa fish fillets, raw catfish as processing materials and value-added products from seafood.	175	3.2
Top 10 Holdings				61.9

Source: The Company as at 31 March 2017, Bloomberg

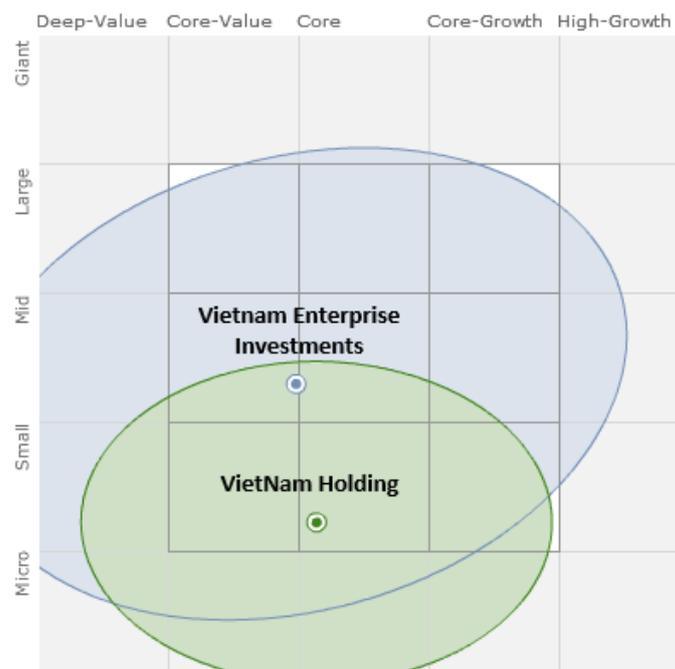
Portfolio P/E lower than index

The average P/E ratio for the portfolio is 12.2x which is less than the Vietnam All Share ratio of 13.6x. However, the forecast EPS growth for 2017 is 11.2% for the portfolio compared with 5.2% for the index.

Focus on mid and small-cap stocks

The chart below illustrates VietNam Holding’s focus on mid/small-cap stocks, while Vietnam Enterprise Investments includes significant holdings in large cap stocks. According to Morningstar, VietNam Holding has a 19% overlap with Vietnam Enterprise Investments, while VinaCapital Vietnam Opportunities is differentiated by its allocation to private equity and real estate.

Comparison with Vietnam Enterprise Investments



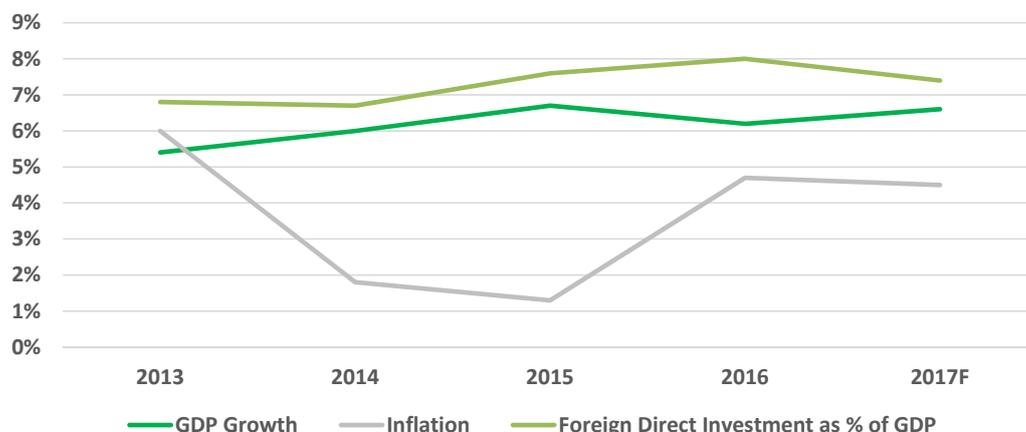
Source: Morningstar, data as at 30 April 2017 for VietNam Holding and 31 December 2016 for Vietnam Enterprise Investments

Manager's Outlook

The manager highlights a number of factors which he believes makes investment in Vietnam attractive, including:

- favourable demographics, with more than 50% of Vietnam's population of 95 million below the age of 30;
- an educated and capable workforce at competitive wages, which has seen the country taking market share from China;
- stabilised macro indicators, including GDP growth rate of 6-7%;
- foreign direct investment has been increasing in recent years, both in US Dollar terms and as a percentage of GDP, and foreign multi-nationals such as Samsung are leading Vietnam's export market;
- although Vietnam is one of the world's largest rice exporters, over the past few years high-tech products such as smartphones have outranked agriculture produce and textiles in terms of export value;
- domestic consumption growth, as in many other developing markets, is an important growth driver for Vietnam's economy as a result of a rising middle class;
- urbanisation is an important theme with approximately half of the population expected to be living in urban areas by 2030, with increasing demand for housing and transportation. The country's largest city, Ho Chi Minh City, currently has more than 9 million inhabitants, which is around 10% of the population.

Vietnam GDP growth, inflation and foreign direct investment



Source: VietNam Holding AM

Growth forecasts
remain strong

The withdrawal of the US from the Trans Pacific Partnership (TPP) trade deal is viewed as negative for Vietnam, however, GDP growth forecasts remain strong and above 6%. It is also possible that China could take the reins from the US with negotiations ongoing with regard to the Regional Comprehensive Economic Partnership (RCEP). The RCEP is a proposed free trade agreement between the ten member states of the Association of Southeast Asian Nations (ASEAN) (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam) and the six states with which ASEAN has existing free trade agreements (Australia, China, India, Japan, South Korea and New Zealand). Vietnam has a number of other free trade agreements that are either already in place or being negotiated, including one between Vietnam and the EU.

Regional security is also seen as a potential source of volatility with rising tensions in the Korean Peninsula and South China Sea.

Fundamental change to stock
market from new issues

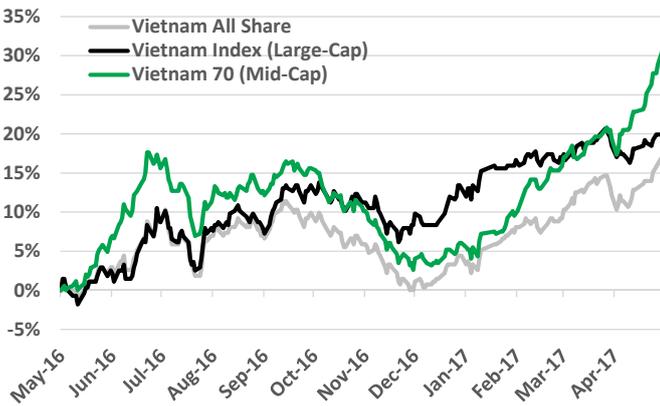
The manager expects new issues in Vietnam during 2016/17 to cause a fundamental change to the structure of the country's stock market. Approximately half of the largest 30 stocks by market capitalisation are expected to change.

The fund is able to invest in companies prior to IPO and the investment team is currently looking closely at approximately 20 companies expected to list in the next 18 months, with a total market cap of US\$12bn. However, the portfolio's current weighting to pre-IPO companies is small based on the manager's view that valuations have been relatively high.

Attractive valuations in second and third tier

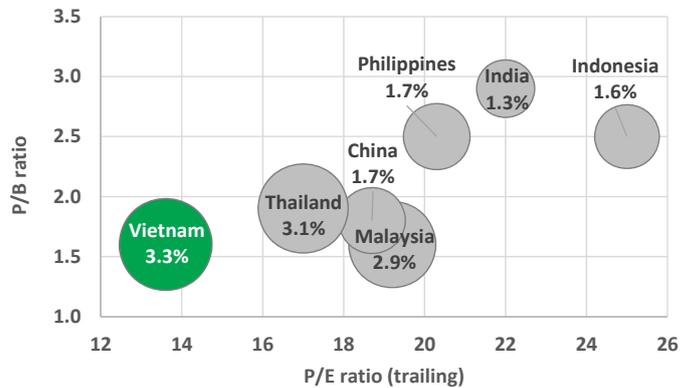
High valuations in new listings driven by local and foreign investor attention have, in the manager's view, resulted in attractive valuations for second and third tier companies. The manager has identified a number of such out of favour companies with potential revaluation catalysts.

Performance of various Vietnam Indices over last 12 months



Source: Bloomberg

Regional Valuation and Dividend Yield Comparison



Source: VietNam Holding AM, Bloomberg
Note: Bubble size represents dividend yield

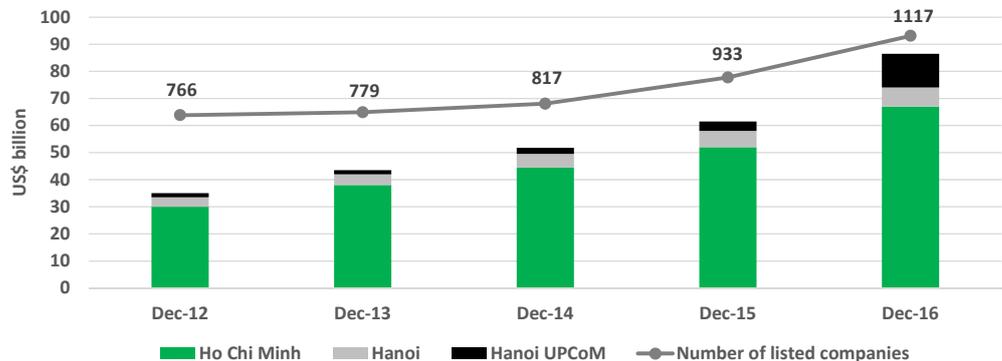
Economic momentum remains positive

The manager notes that economic momentum and reform indicators remain positive. The government's budget was close to being balanced in Q1 2017, and although this is unlikely to be maintained, the manager takes this as a sign that the government is able to reduce the habitual 5-6% of GDP fiscal deficit. As such, the start of year fiscal deficit target of 3.5% of GDP is viewed as achievable.

Total listed market cap above US\$100bn

The sustained commitment being shown to partial privatisation of state-owned enterprises is also supportive of the reduced fiscal deficit target in the manager's view. The manager notes that such listings from SOEs have revived the significance of the UpCom (unlisted public companies) market, which he describes as now being a waiting room towards listing on one of the two established exchanges. Including UpCom, the total listed market cap of Vietnam is now in excess of US\$100bn.

Market cap and number of listed companies in Vietnam



Source: VietNam Holding AM, Bloomberg, VCSC

Potential for transition from Frontier to Emerging Market status with MSCI

Combining these factors with the heightened pace of private company listings, the continuing trend towards liberalised foreign ownership limits and increasing foreign direct investment, the manager believes that there is a case to support Vietnam being upgraded from Frontier to Emerging Market status by MSCI. However, the timeline for such a change remains unclear with factors such as liquidity and market accessibility still to be addressed.

Economic outlook remains strong despite recent dip

Despite a fall in YoY GDP growth to 5.1% at the end of March, the manager highlights positive leading indicators such as the Nikkei purchasing managers index (at 54.6 and a 22-month high) and foreign direct investment approvals (up 92% YoY in Q1 at US\$7.7bn). He believes that these suggest that the economic growth outlook for Vietnam overall remains strong.

Valuations attractive compared with regional peers

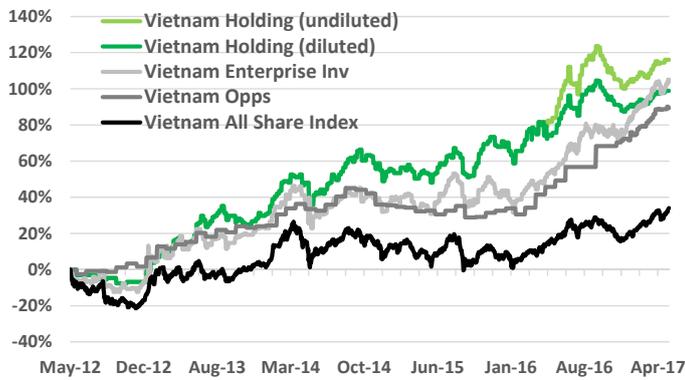
While valuations are somewhat higher than in recent years the manager notes that the average valuation for Vietnam All Share is lower than for other countries in Asia (see the top right chart on page 6).

Performance

Good performance record

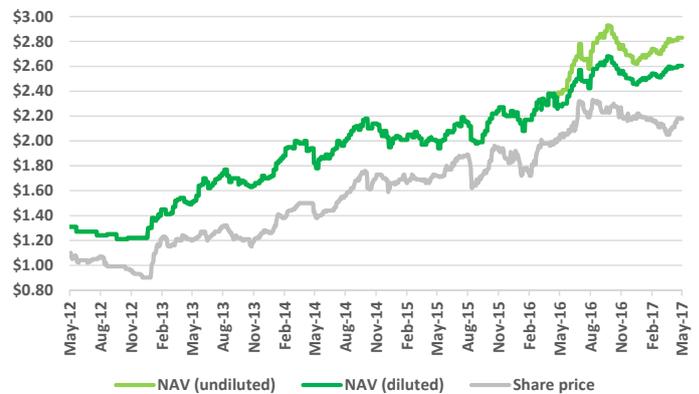
VietNam Holding has a good long-term performance record against both the index and its peers. The chart on the left below shows that over the last five years the fund's undiluted NAV, which better reflects the manager's performance, has outperformed both of its peers as well as the Vietnam All Share.

5 Year NAV Performance



Source: Winterflood Securities, Thomson Reuters, Bloomberg
Data to 12 May 2017

VietNam Holding – 5 Year NAV and Share Price Performance

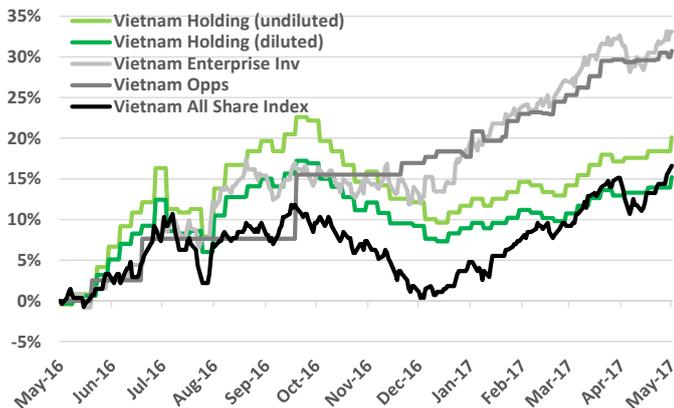


Source: Winterflood Securities, Thomson Reuters, Bloomberg
Data to 12 May 2017

Recent headwind from performance of highly valued stocks and IPOs

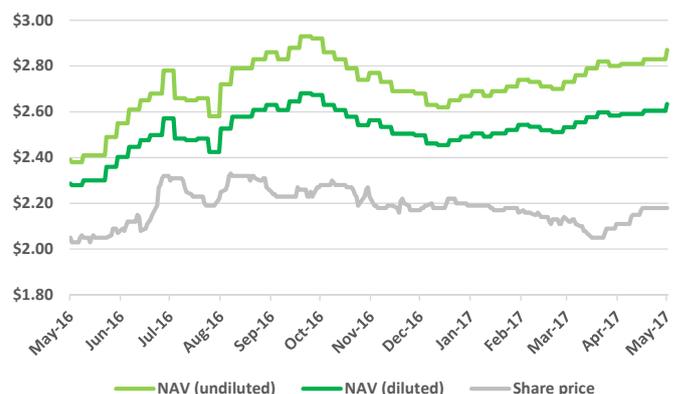
The fund's NAV performance in the second half of 2016 and early 2017 lagged the index as the team's value approach has meant that the portfolio did not hold the more highly valued stocks, which have driven performance. In the fund's interim results the manager highlighted that the anticipation of the increased pace of privatisations contributed to rising valuations. By way of example, the largest Vietnamese IPO in 2H 2016 was Saigon Beer, with a free float of just 10.4%, on 6 December 2016. By the end of 2016 its share price had increased by 52%, taking it to 8.5% of the Vietnam Index, and it had a trailing P/E of 40.7x and a forward P/E of 33.7x. According to the manager, the demand for IPOs has drawn liquidity from the mid-cap segment, where the fund is primarily invested, and therefore also negatively impacted absolute performance. April saw a reversal in relative performance as mid-cap stocks outperformed, benefiting the fund's portfolio.

One Year NAV Performance



Source: Winterflood Securities, Thomson Reuters, Bloomberg

VietNam Holding – One Year NAV and Share Price



Source: Winterflood Securities, Thomson Reuters, Bloomberg

Discount History

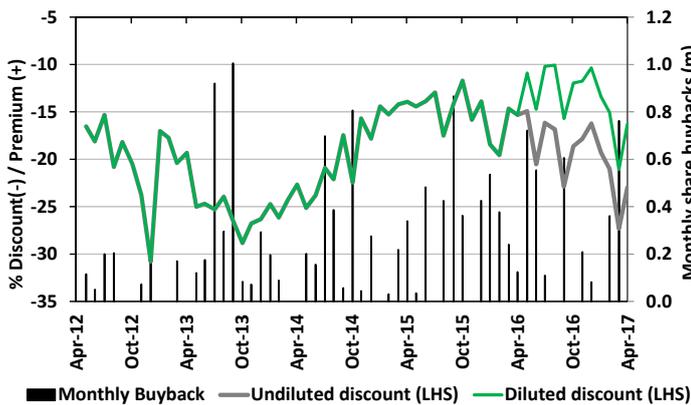
Sustained share buyback programme

In 2013 the fund's discount widened as far as 30% before a sustained share buyback programme effectively halved the discount. The discount tightened to around 10%, with the NAV on a diluted basis, in 2016 but has recently been drifting wider. We note that the fund's peers are both trading on discount's wider than their 12 month average but we believe that VietNam Holding's larger differential is due to the perceived overhang from the potential conversion of the fund's warrants which are due to expire on 1 June (further details below).

Discount widened in 2013

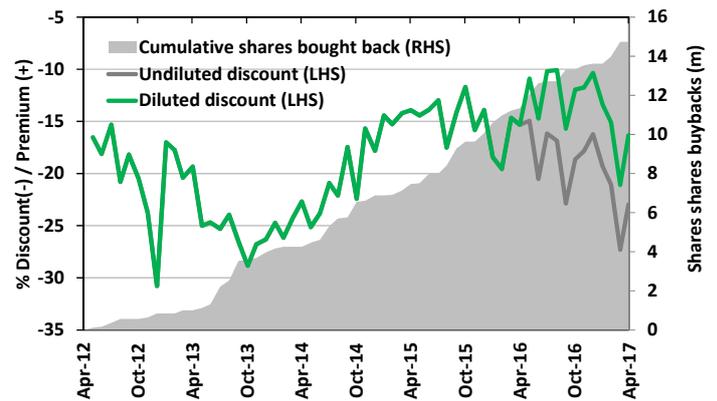
The fund's discount similarly widened from 15% to 30% ahead of the final exercise date of the previous batch of warrants in September 2013, although 5.2m of the 18.2m issued were not exercised and lapsed.

5 Year Discount History and Monthly Buybacks



Source: Winterflood Securities, Thomson Reuters, Morningstar

5 Year Discount History and Cumulative Buybacks

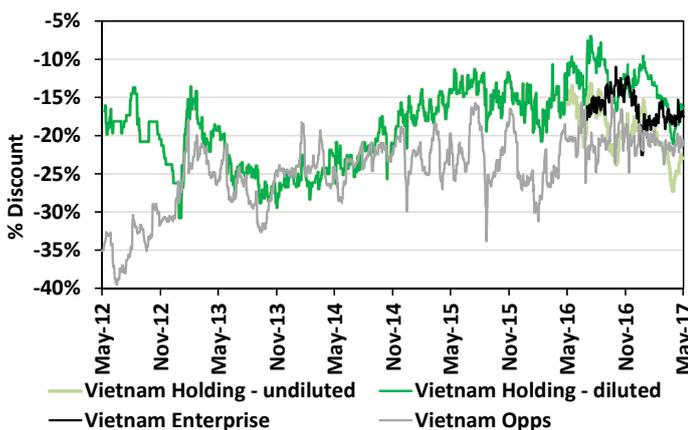


Source: Winterflood Securities, Thomson Reuters, Morningstar

'Pragmatic approach' to discount reduction

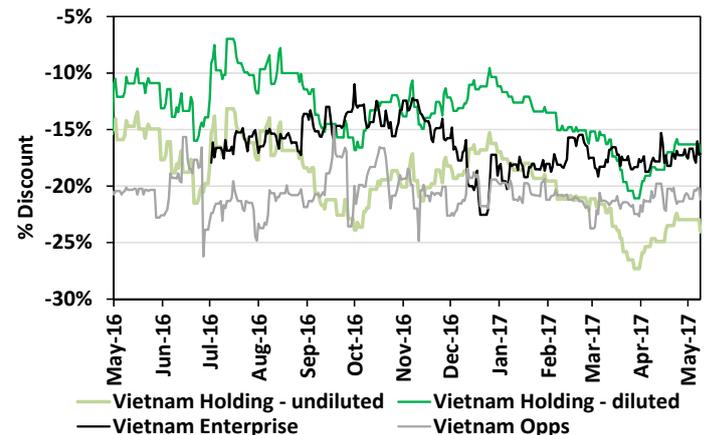
The Board does not have an explicit discount target when buying back shares, but describes itself as having a 'pragmatic approach' to discount reduction. In the last five years the fund has bought back 14.7m shares at a cost of £16.7m, representing 27% of the shares in issue at the start of the period.

5 Year Discount History with Peers



Source: Winterflood Securities, Thomson Reuters
Data for Vietnam Enterprise is since UK listing in July 2016

1 Year Discount History with Peers

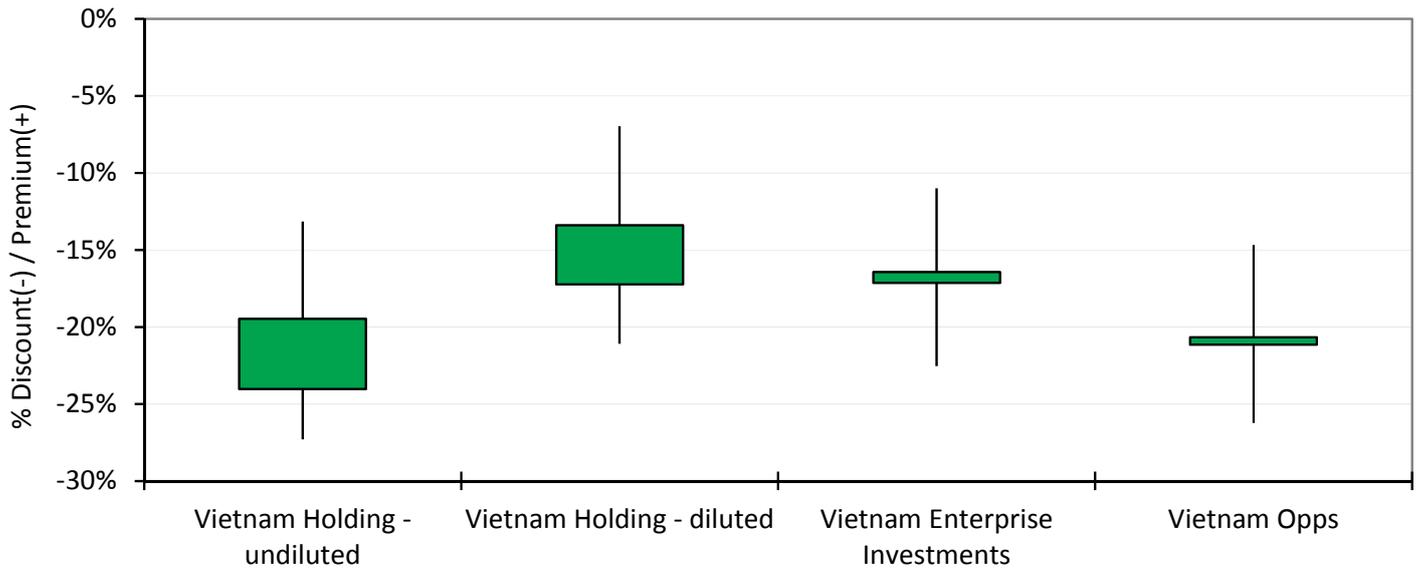


Source: Winterflood Securities, Thomson Reuters
Data for Vietnam Enterprise is since UK listing in July 2016

Discount wider than 12 month average

All three funds in the chart on the following page are trading at discounts wider than their average over the last 12 months, although the difference is negligible for VinaCapital Vietnam Opps. The difference is more notable for VietNam Holding, with the current discount being 17% compared with an average of 13% on a diluted NAV basis.

Current discount and 12 month average, high and low



Source: Thomson Reuters, Bloomberg as at 12 May 2017

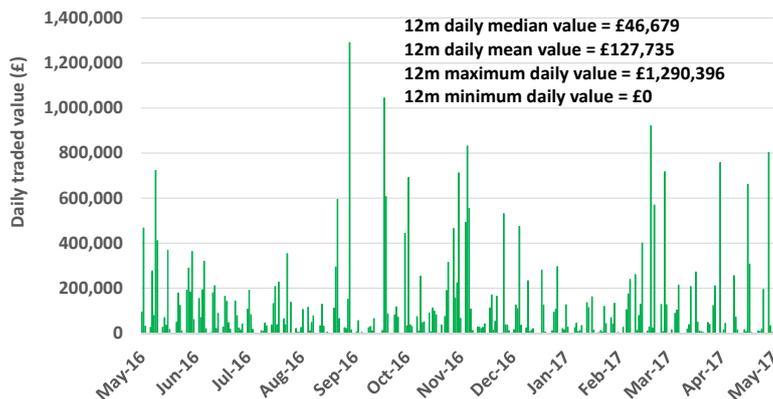
Note: The vertical black line shows the range of the discount over 12 months. The horizontal lines show the 12 month average and the current discount. A grey box indicates that the current discount is narrower than the 12 month average, while a green box indicates that the current discount is wider than the 12 month average.

Liquidity

Liquidity could increase if warrants are exercised

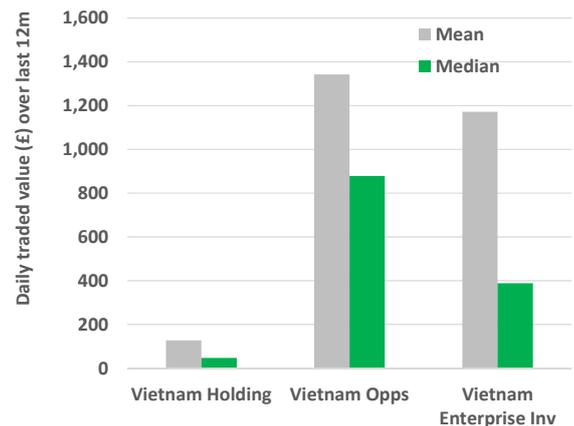
VietNam Holding has the smallest market cap out of the peers shown in the chart below and so its relative illiquidity is not surprising. Over the last 12 months the median value traded per day was £47k, although this increases to £128k per day on a mean average basis. This indicates that liquidity can be lumpy. However, the fund’s warrants are currently ‘in the money’ and are due to expire on 1 June, which could lead to a significantly increased market capitalisation and therefore potentially boost liquidity.

Value of daily shares traded



Source: Winterflood Securities, Bloomberg

Daily traded value over last 12 months



Source: Winterflood Securities, Bloomberg

1 June 2017 is final opportunity to exercise

Warrant expiry

In 2015 the fund made a bonus issue of warrants on the basis of one warrant for every three ordinary shares held in June 2015, with a final exercise date of 1 June 2017. The fund recently proposed that an additional exercise date for the warrants of 1 November 2017 be created. While ordinary shareholders voted in favour, the warrant holders voted against extending the life of the warrants. Therefore the final opportunity for warrant holders to exercise their warrants and subscribe for new ordinary shares is 1 June 2017. Following this date, the warrants will expire and

there will be no further opportunities to exercise rights to subscribe for ordinary shares or to trade in the warrants.

EGM result puzzling

We were slightly puzzled by the results of the VietNam Holding EGMs. In theory, extending the term and number of opportunities to exercise a warrant increases its value as there is a greater chance that it will be 'in the money' on one of those exercise dates. We would therefore have expected the warrant holders to vote in favour of the proposals.

NAV dilution upon exercise

The flipside of this is that when the warrants are exercised they can have a negative dilutive effect on the NAV and so we could understand why some ordinary shareholders may have voted against the extension. In a reminder to warrant holders about the forthcoming final exercise opportunity, published on 3 May, the potential NAV dilution was quantified. The net asset value of the fund as at 28 April was US\$152.6m or US\$2.830 per share. If all the warrants are exercised, the net asset value of the fund would increase to US\$192.5m, which equates to US\$2.610 per share on a fully diluted basis.

Potential to improve liquidity and reduce costs

However, there are other benefits to ordinary shareholders from warrants being exercised, such as the increased size of the fund leading to a reduction in ongoing charges, due to spreading fixed costs across a larger capital base as well as the tiered fee structure, and improved liquidity.

Warrants are 'in the money'

In any case the warrants are currently 'in the money' with the exercise price (US\$1.998) below the current market price (US\$2.176 on 12 May). We would therefore expect holders to exercise their subscription rights, although, as tends to be the case, there will inevitably be a proportion which are not exercised. Warrants that are not exercised will be left to an independent trustee to make the decision as to whether the subscription rights are exercised. This can have the effect of acting as an overhang, depressing the share price, as if the trustee decides to exercise the rights then they will sell the resulting ordinary shares in the market and return proceeds to warrant holders.

Management Fees

Tiered management fee

The manager is entitled to a tiered management fee (paid monthly) of:

- 2.00% per annum on NAV up to and including US\$100m;
- 1.75% per annum on NAV between US\$100m and US\$150m; and
- 1.50% per annum on NAV above US\$150m.

15% performance fee subject to hurdle and high water mark

The manager is also entitled to an incentive fee equal to 15% of the 'excess performance' each year, subject to certain criteria being met. 'Excess performance' is calculated as the difference between the NAV performance and the higher of:

- the initial high water mark (i.e. 30 September 2013 NAV per share increased by 8%) increased by 5% per annum on a compound basis; and
- the highest previous NAV in respect of a reporting period in which an incentive fee was paid, increased by 5% per annum on a compound basis.

Performance fee partially paid with shares

For the financial year to 30 June 2016 the manager was entitled to a performance fee of US\$4.5m, which was equivalent to 3.1% of the FYE NAV. This performance fee was partially paid with 631,684 shares which were issued from Treasury.

At the half-year to 31 December 2016 there was no performance fee payable and as at 31 March 2017 the 12 month operating expense ratio was 2.84%.

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