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## John Newlands: Miss Saigon and you might miss out

By [John Newlands](#) / 06 Jun, 2017



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Comments

During my two decades or so of scrutinising the UK investment trust sector there has always been talk of 'the next big thing'. Sometimes it's been a great idea to climb on board early and sometimes it's proved to be a costly mistake.

Occasionally it has cut both ways, the 1990s internet boom being a classic case in point. The few who jumped ship before it struck the reef made fortunes. Others just about managed to stay afloat and some sank without trace.

Moving on from that cheery thought, sometimes the trend of the day turns into something both positive and permanent. Take the soaring growth of e-commerce, or the transformation of healthcare outcomes as a result of biotechnology research, much of it financed, whether the wider public knows it or not, by managed funds and their investors.

## The ‘next big thing’

Thoughts of when and where ‘the next big thing’ could appear are never far from City analysts’ minds. My current interest in Vietnam, unlikely though that might sound as a candidate for such an accolade, was triggered by visits by two separate Ho Chi Minh City-based fund managers to my firm’s London office last autumn. It was fuelled further by a recent ‘kicking the tyres’ visit to the three main in-country investment trust managers on their home turf.

These events have opened my eyes to the fact that, to begin with, there are two large (£700 million-plus) London Stock Exchange main market-traded investment companies **Vietnam Enterprise Investments** ([VEIL](#)) and **VinaCapital Vietnam Opportunity** ([VOF](#)) offering exposure to the burgeoning Vietnamese stock market. A third interesting trust, **Vietnam Holding (VNH)**, is smaller, less liquid and traded on the LSE’s Alternative Investment Market (AIM).

In addition Morningstar reveals a somewhat staggering 262 global closed-end funds with Vietnam in their name. Some specialise in real estate, infrastructure or fixed income investment, all topics for another day.

There are a number of open-ended funds, mostly small in size owing to the liquidity of the underlying market. Finally there are two ETFs, with combined assets of \$544 million.

Various technical limitations to do with foreign ownership limits, etc, have led to a failure to keep pace with the performance of the Vietnam Index in recent years. In particular, the two ETFs have little or no exposure to some of the largest and fastest growing stocks in the market.

## Three Vietnam trusts compared

	Total assets (£m)	Market value (£m)	Share price premium (- discount) to net asset value %
<b>Vietnam Enterprise Investments</b> ( <a href="#">VEIL</a> )	903	766	-15
<b>VinaCapital Vietnam Opportunity</b> ( <a href="#">VOF</a> )	725	574	-21

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<b>Vietnam Holding Limited (VNH)</b>	153	90	-19
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*Source: Morningstar Inc 31/5/2017*

As investment trust pioneers found in the nineteenth century, putting feet on the ground is essential to differentiate between something described as a vibrant railway construction project and what turns out to be an unexcavated track through the foothills. In short, there is nothing like first-hand research.

All I can say on that score is that during my visit I was impressed by the professionalism, indications of adherence to corporate governance 'best practice', risk control strategies and detailed research methodologies that I found at every stage.

On the wider political stage, too, there were indications of government support for a larger and more liquid investment securities market. This stance is typified by the decision to merge the VNI, which is the market-cap-weighted index of all 330 companies on the Saigon stock exchange, which has practically all the blue chips, with the Hanoi exchange before the end of 2017.

Vietnam has a population of 93 million and a 54 million workforce, with lower wage rates than, for instance, China and an average age below 30. GDP growth is forging on, with a 6.2% increase reported for 2016 and a further 6.5% forecast for 2017. Foreign direct investment is increasing each year, too, such that 70% of exports are from foreign-owned companies within Vietnam, most notably Samsung.

A recent detailed report by Numis Securities has highlighted that the prospects for earnings growth remain strong at 19% for 2017, while Vietnam's currency, the dong, has been stable against the US dollar. While my affinity with global macroeconomics is generally akin to that of Vlad the Impaler's penchant for prison reform, these figures suggest a pretty strong backdrop to me.

In summary, this article has not been about making specific recommendations. Single country funds are bound by their very nature to involve the 'specific risk' that a given political, climatic or other event could incur serious loss. There are various well-diversified Asia Pacific, frontier markets or even global funds that can offer minority exposure to Vietnam. These vehicles would offer the first port of call to all but the most risk tolerant investors. I just want to park the thought that at some stage, maybe not today, investors might just be saying, 'I wish I hadn't missed Saigon!'

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