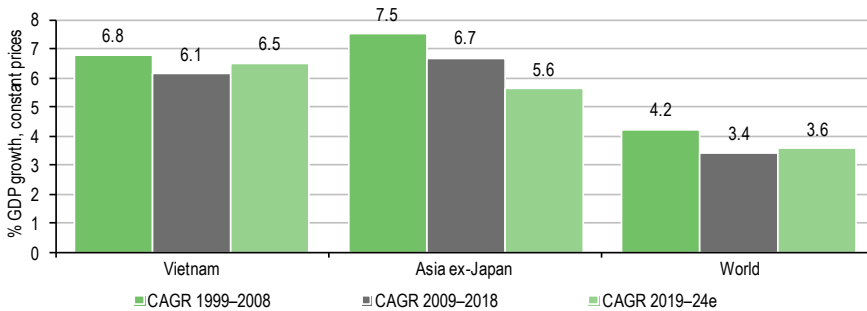


Vietnam Enterprise Investments

Long-established expertise in Vietnam

Vietnam Enterprise Investments (VEIL) was launched in 1995 and is the largest closed-ended fund focused on Vietnam. In July 2017, it became a member of the FTSE 250. VEIL aims to generate long-term capital growth by following a bottom-up approach, unconstrained by the benchmark, to find high quality companies that are attractively valued. Although the fund's NAV total return has lagged the VN Index over one year, VEIL has a strong longer-term performance track record, delivering annualised NAV growth of c 26% and 20% over three and five years respectively. The manager believes sustained economic growth in Vietnam offers exciting long-term investment opportunities and valuations are now more reasonable following a sharp correction in the VN Index in 2018.

Vietnam GDP growth versus Asia and World



Source: IMF April 2019 WEO, Edison Investment Research

The market opportunity

Vietnam's medium-term economic growth prospects are among the strongest in Asia and the world. The IMF expects the country's GDP over the 2019-2024 period to grow at an annual compound rate of 6.5%, which is faster than the 2009-2018 period. This is significantly higher than the IMF's forecasts for the Asian region and the world. Secular trends, including urbanisation and a rapidly growing middle-class, offer exciting medium- to long-term opportunities for Vietnamese equities.

Why consider investing in VEIL?

- Managed by the longest-established independent asset manager dedicated to investing in Vietnam.
- A relatively concentrated portfolio of 35-40 stocks is significantly different from the VN Index and represent the manager's highest conviction long-term investment ideas.
- A well-resourced and experienced Vietnam-based investment team supports VEIL's in-depth and disciplined investment approach.

Discount has narrowed below its average

VEIL currently trades on a discount to NAV of 15.0%, which is slightly wider than its three-year average of 14.4%. The board is sensitive to VEIL's discount relative to similar single-country investment companies investing in Asia. Focused on its objective to deliver capital growth, VEIL has not paid a dividend since its inception.

Investment companies

Vietnamese equities

20 May 2019

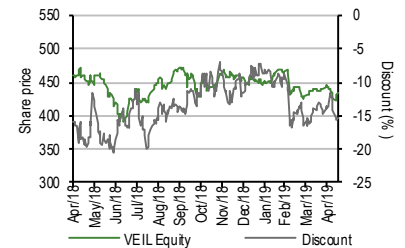
Price 435.0p
Market cap £954.6m
AUM £1,124.2m

NAV* 512.0p
Discount to NAV 15.0%

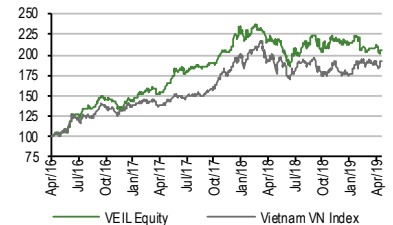
*As at 16 May 2019.

Yield 0.0%
Ordinary shares in issue 220.1m
Code VEIL
Primary exchange LSE
AIC sector Country Specialists: Asia Pacific
Benchmark VN Index

Share price/discount performance



Three-year performance vs index



52-week high/low 473.0p 390.0p
NAV** high/low 565.0p 461.0p

**Including income.

Gearing

Gross* 2.7%
Net* 1.2%

*As at end-April 2019.

Analysts

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Exhibit 1: VEIL at a glance

Investment objective and fund background

VEIL's investment objective is to achieve medium- to long-term capital growth by investing in the equity securities of companies primarily operating in, or with significant exposure to, Vietnam. VEIL adopts a bottom-up approach to investment selection and does not set portfolio allocations with reference to index weightings. The VN Index is used as a performance benchmark, which VEIL seeks to outperform on a rolling three-year basis.

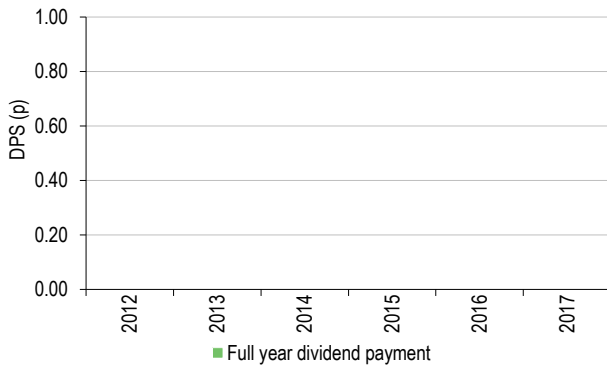
Recent developments

- 16 May 2019: Announced appointment of professor Entela Benz-Saliasi as non-executive director with immediate effect.
- 7 April 2019: Annual results to end-December 2018 – NAV TR -1.3% in sterling terms versus -6.1% for the VN Index.
- 25 May 2019: Announced resignation of chairman Wolfgang Bertelsmeier effective 30 June 2019, to be succeeded by current senior independent director, Stanley Chou.

Forthcoming		Capital structure		Fund details	
AGM	June 2019	Ongoing charges	2.25% (see page 7)	Group	Dragon Capital
Interim results	September 2019	Net gearing	1.2%	Manager	Vu Huu Dien
Year end	31 December	Annual mgmt fee	Tiered: 2.00%;1.75%;1.50% of net assets	Address	PO Box 309, Ugland House, Grand Cayman, KY1-1104 Cayman Islands
Dividend paid	N/A	Performance fee	None	Phone	+84 8 3823 9355
Launch date	11 August 1995	Company life	Indefinite	Website	www.veil-dragoncapital.com
Continuation vote	None	Loan facilities	US\$40m outstanding loan		

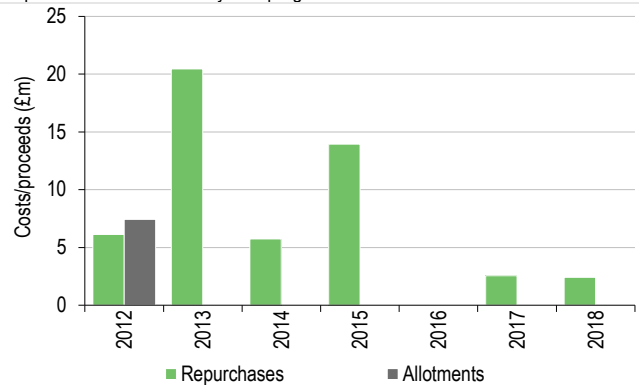
Dividend policy and history (financial years)

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

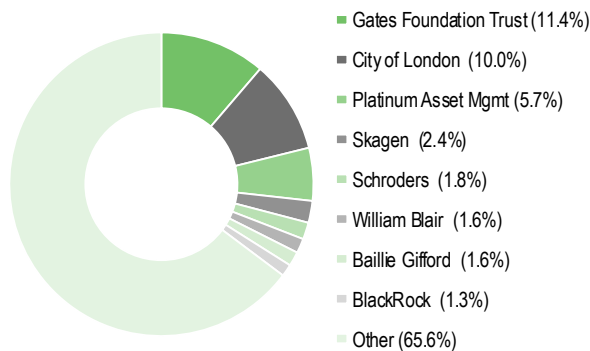


Share buyback policy and history (financial years)

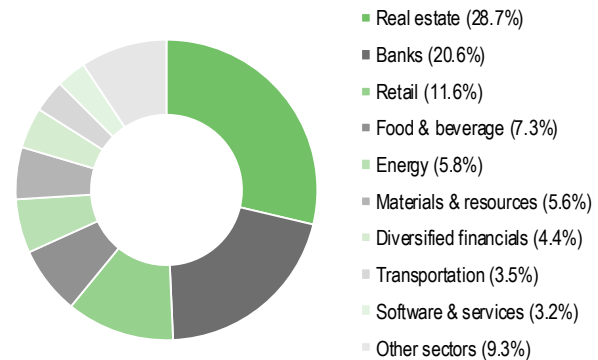
VEIL has annually renewed authority to repurchase up to 14.99% of its issued capital. The most recent buyback programme was in June 2018.



Shareholder base (as at 29 April 2019)



Portfolio exposure by sector (as at 30 April 2019)



Top 10 holdings (as at end-April 2019)

Company	Sector	Portfolio weight %		VN Index weight %
		end-April 2019	end-April 2018*	end-April 2019**
Mobile World	Retail	8.1	6.3	1.2
Vinhomes	Real estate	7.4	N/A	9.6
ACB	Banks	7.0	7.7	N/A
Khang Dien House	Real estate	6.4	5.6	0.4
Military Bank	Banks	5.1	6.0	1.5
Hoa Phat	Materials and resources	5.0	3.1	2.2
Sabeco	Food and beverage	4.2	5.2	4.8
PV Gas	Energy	3.4	3.6	6.7
FPT	Software services	3.3	3.1	0.9
Vinamilk	Food and beverage	3.2	5.3	7.0
Top 10 at each date		49.6	57.2	

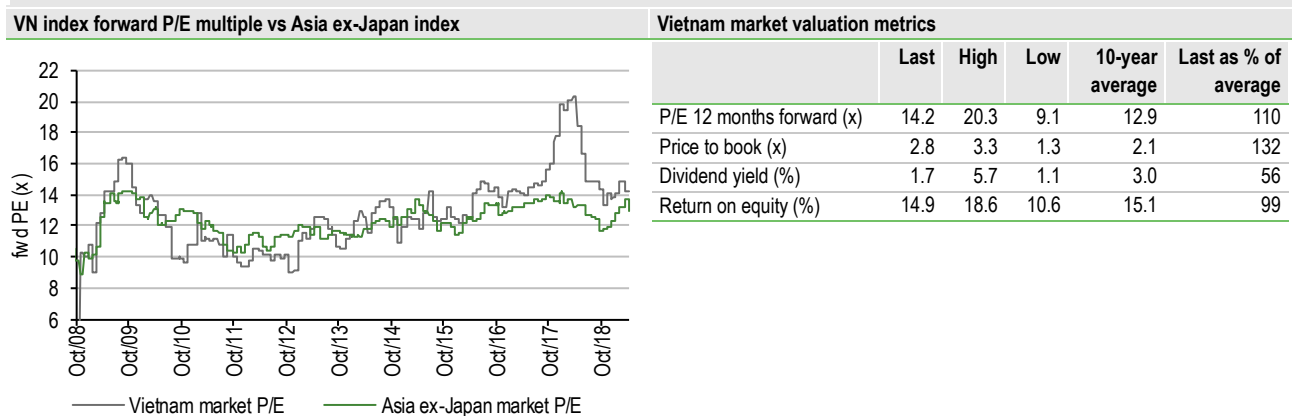
Source: VEIL, Edison Investment Research, Bloomberg, Refinitiv. Note: *N/A where not in April 2018 portfolio. **N/A where not a constituent of the VN Index.

Market outlook: Solid economic foundation for growth

Vietnam's economy continues to show growth and resilience. GDP growth in 2018 of 7.1% was the highest in 10 years, while Q119 GDP growth was better-than-expected at 6.8%. First quarter growth is traditionally weaker than the full year, due to lower economic activity resulting from the long Vietnamese New Year holiday, which fell between 4 and 10 February this year. Other economic indicators augur well for sustained high growth over the short and medium term. The purchasing managers index for March was 51.9, which was slightly higher than the February reading of 51.2, suggesting a continued expansion of the manufacturing sector. This trend is supported by Vietnam's ability to attract strong foreign direct investment (FDI). For the first two months of 2019, FDI disbursements increased c 10% year-on-year, while total registered FDI increased by c 58%. While the ongoing trade dispute between China and the US is not welcome, Vietnam's low- to mid-end manufacturers are well-placed to benefit should multinationals wish to diversify the locations of their factories in the region. FDI is an important driver for export growth, and the economy has a healthy foreign exchange reserve (\$61bn at end-2018), which has helped underpin a stable exchange rate. Inflation also appears relatively benign with Q119 CPI of 2.6% compared with the same quarter the previous year.

As shown in Exhibit 2, Vietnamese equities' valuations had become overstretched in 2017 and early 2018. A sharp correction in the VN Index last year has brought the forward P/E multiple back in line with Asia ex-Japan; however, growth prospects for Vietnam are superior to that of the Asian region over the short and medium term. The front page chart shows the IMF forecasts for Vietnam GDP to grow at an annual compound rate of 6.5% between 2019 and 2024. Although lower than 2017 and 2018, this is an acceleration compared to the previous 2009 to 2018 period, whereas the IMF expects Asia ex-Japan growth (led by a slowdown in China) to continue to decelerate gradually.

Exhibit 2: Vietnamese market valuation metrics



Source: Refinitive, Bloomberg, Edison Investment Research. Note: Index valuations at 17 May 2019.

Fund profile: Vietnamese equities specialist

VEIL is the largest and longest-established listed fund focused on Vietnamese equities. It was launched in 1995 as a closed-ended fund, incorporated in the Cayman Islands, and was originally listed on the Irish Stock Exchange. In July 2016, it de-listed from the Irish Stock Exchange and was admitted to the Main Market of the London Stock Exchange. It has been included in the FTSE 250 Index since July 2017.

VEIL's investment objective is to deliver long-term capital growth and to outperform the VN Index on a rolling three-year basis, primarily through investing in Vietnamese equities. It is not constrained by index weightings and follows a fundamental approach to constructing a relatively concentrated

portfolio of 35–40 stocks. Most of these holdings are listed on one of Vietnam's three exchanges: the Ho Chi Minh Stock Exchange (HSX), the Hanoi Stock Exchange (HNX), and the Unlisted Public Companies Market (UPCoM), an exchange for newly listed state-owned companies that must transfer to either the HSX or HNX within one year. VEIL is also permitted to invest in unlisted companies, which are typically those with visible, near-term plans for an IPO.

The fund manager: Vu Huu Dien

The manager's view: A unique investment proposition

Vu believes Vietnam is among the most attractive equity markets in the region. The country's economic growth potential is sustainably high over the medium term (reaffirmed by the IMF's forecasts as shown in the front-page chart). This is underpinned by favourable demographics and a rapid growth of its middle class. According to the World Bank, c 70% of Vietnam's population (c 97m) is under 35 years of age, which supports a growing workforce and rising incomes. The middle class currently accounts for around 13% of the population and the Boston Consulting Group expects this to increase to around one-third in the early 2020s. FDI is an important driver for continued strong exports and the manager believes Vietnam should be especially attractive to multinationals, given its highly educated workforce (96% literacy rate) and strong cultural work ethic. Trade wars may hit investor sentiment, however, Vu believes Vietnam's appeal as a manufacturing base could improve as a result of the US-China trade dispute, enhancing the country's long-term economic prospects.

Vu believes VEIL is uniquely positioned to benefit from Vietnam's excellent investment potential. The manager, Dragon Capital, is the longest established investment manager in Vietnam. In addition to a large and experienced research team, its size (assets under management of over US\$3bn) and strong reputation means it is often the 'first port of call' for companies looking to raise capital, including preparing for IPO or secondary transactions, or for institutions looking to divest a sizeable position. In the past, the manager has found opportunities to negotiate transactions and has been able to use its deal expertise to achieve favourable pricing for VEIL's investments.

Asset allocation

Investment process: Fundamental and disciplined

VEIL follows a disciplined, bottom-up approach to identifying well-managed companies with sustainable growth that trade on reasonable valuations. The manager also assesses companies against environmental, social and governance (ESG) criteria, and believes those that score highly in ESG terms tend to outperform over time. The Vietnam-based investment team is well-resourced, with three portfolio managers (led by Vu Huu Dien) and 10 sector specialist research analysts. This structure supports an intensive schedule of company meetings and fundamental analysis. Many of Vietnam's investment opportunities arise from new listings and government divestments, and the team has long-standing experience in the evaluation of unlisted or recently listed companies. The manager is benchmark agnostic and the relatively concentrated portfolio of 35–40 stocks represents the team's highest conviction investment ideas, making the portfolio typically very different from the VN Index. The top 15 stocks in the VN Index account for c 70% of the index, and these companies account for less than 20% of VEIL's portfolio. All investment decisions are reviewed by an investment advisory committee, comprising Dragon Capital's senior managers (CEO Beat Schuerch, deputy CEO Alex Pasikowski, CIO Bill Stoops and CRO Gavin Patterson), to ensure that the portfolio is consistent with VEIL's investment objectives.

Current portfolio positioning

As shown in Exhibit 3, the largest sector exposure in the portfolio is real estate at 28.7%. Over the year to end-April 2019, this has increased by 4.3pp. Much of this increase is accounted for by the purchase of Vinhomes at its IPO in May 2018, discussed in our [November 2018 review](#). The fund manager has continued to add to this stock, which is now VEIL's second largest holding (see Exhibit 1), as he remains positive on the outlook for the company. He expects Vinhomes to be able to recognise significant revenues (from property sales already agreed but not yet completed) for FY20, which should help drive c 60% earnings growth, implying an attractive FY20 P/E multiple of 12–13x.

Exhibit 3: Portfolio sector exposure at 30 April 2019						
% unless stated	Portfolio 30 April 2019	Portfolio 30 April 2018	Change (pp)	VN index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Real estate	28.7	24.5	4.3	28.6	0.1	1.0
Banks	20.6	21.3	(0.7)	22.3	(1.7)	0.9
Retail	11.6	10.3	1.3	1.4	10.1	8.0
Food and beverage	7.3	8.9	(1.6)	14.5	(7.2)	0.5
Energy	5.8	5.6	0.2	9.6	(3.9)	0.6
Materials and resources	5.6	8.0	(2.4)	4.1	1.5	1.4
Diversified financials	4.4	5.3	(0.9)	4.8	(0.4)	0.9
Transportation	3.5	4.5	(1.1)	3.3	0.2	1.1
Software and services	3.2	2.8	0.4	1.0	2.2	3.1
Consumer durables	2.7	2.7	0.0	1.0	1.8	2.9
Automobiles and components	2.4	3.0	(0.6)	0.4	1.9	5.8
Capital goods	2.1	1.6	0.6	2.3	(0.2)	0.9
Pharmaceuticals	1.6	1.5	0.1	1.0	0.6	1.6
Other sectors	0.4	0.0	0.4	5.6	(5.2)	0.1
	100.0	100.0		100.0		

Source: VEIL, Edison Investment Research

VEIL's most significant overweight position relative to the VN Index is in the retail sector (11.6% vs the index weight of 1.4%). The largest holding in the portfolio is Mobile World (8.1%), Vietnam's largest retailer with over 2,200 stores nationwide. The company operates Vietnam's leading mobile phone and consumer electronics retail chains and more recently, in 2015 it also established a minimart food-store chain to compete against the traditional 'wet markets' (which account for over 90% of food retailing). These are open markets, often on streets, that sell fresh meat, fish and perishable produce and as incomes rise in emerging countries, the demand for higher standards of produce quality and hygiene increase. Mobile World's minimart business aims to offer fresh, traceable produce in clean and attractive stores, located in mid-income neighbourhoods. The manager believes this business has enormous potential for growth. The size of the food retail industry in Vietnam is around \$65bn in annual revenues. Vu notes this is a significantly larger market than handsets and consumer electronics industries (c \$8bn pa each). Investors have generally been sceptical about Mobile World's diversification into food retailing and the stock has underperformed the VN Index over the past year. However, the manager believes the stock's potential is greatly underappreciated. VEIL also purchased a new position in Vincom Retail, the largest shopping mall operator in Vietnam, with over 60 malls nationwide. The company's dominant market position and nationwide scale allows it to attract high quality tenants, including established local brands and international brands. With a strong development pipeline, the company is well-placed to sustain robust growth.

Over the year to end-April 2019, the most significant exposure decline was to the materials and resources sector (-2.4pp). This partly reflected the sale of construction materials company Viglacera in a negotiated transaction to a strategic buyer at a significant premium to the prevailing share price. The sector also underperformed, led by steel companies, which saw rising iron ore and weaker output prices depress prospects for profitability. The sale of low-cost airline VietJet Air contributed to the decline in the transportation sector weight (-1.1pp). VEIL had participated in the

company's IPO in February 2017 and, following a period of high growth and market share gains, the manager believes sustained growth will become more challenging.

Performance: Solid mid- and long-term performance

As shown in Exhibits 5 and 6, VEIL's share price total return has outperformed the VN Index over three, five and 10 years. Its NAV total return outperformed over three and five years but underperformed over 10 years. Acute share price volatility was prevalent during the global financial crisis. Over shorter-term periods, except for one month, VEIL's NAV total return has lagged the VN Index. The VN Index's strong performance since the beginning of the year has been led by large cap stocks, favoured by ETF funds and new foreign inflows in Vietnam. VEIL's focus on higher quality and reasonably valued companies, as well as its index agnostic approach, means performance can differ meaningfully from the benchmark (as shown in Exhibit 7).

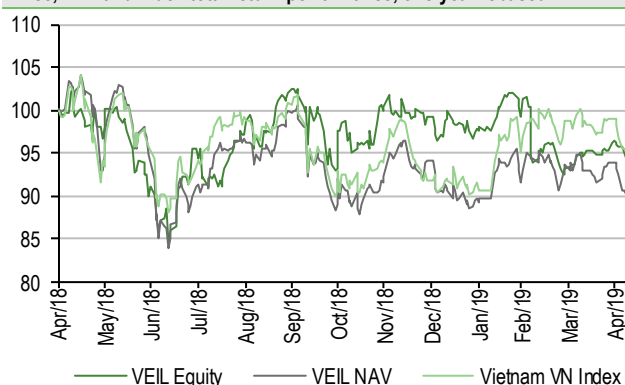
Exhibit 4: Five-year discrete performance data

12 months ending	Total share price return (%)	Total NAV return (%)	Vietnam VN Index (%)	Vietnam VN30 Index (%)	MSCI Emerging Markets (%)
30/04/15	7.0	6.9	8.9	4.1	18.9
30/04/16	13.7	16.9	11.8	5.8	(13.5)
30/04/17	52.5	50.1	37.4	29.5	35.4
30/04/18	43.6	41.5	41.0	44.6	14.7
30/04/19	(3.5)	(6.2)	(1.0)	(8.3)	0.7

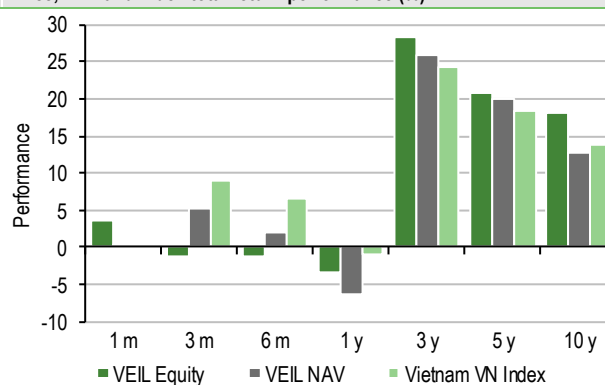
Source: VEIL, Refinitiv, Bloomberg. Note: All % on a total return basis in GBP.

Exhibit 5: Investment company performance to 30 April 2019

Price, NAV and index total return performance, one-year rebased



Price, NAV and index total return performance (%)



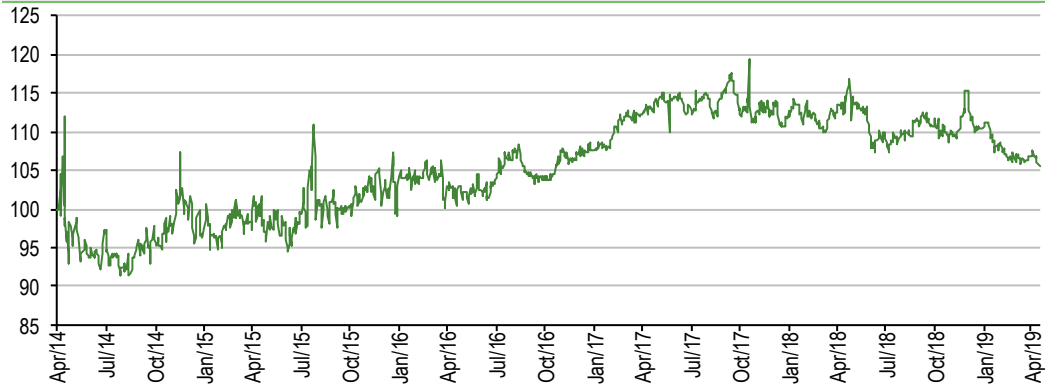
Source: Refinitiv, Edison Investment Research. Note: Three, five and 10-year performance figures annualised.

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

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to Vietnam VN index	3.3	(9.3)	(7.2)	(2.5)	10.3	10.2	42.6
NAV relative to Vietnam VN index	0.1	(3.6)	(4.3)	(5.2)	4.0	6.7	(10.6)
Price relative to Vietnam VN30 index	4.3	(5.1)	0.7	5.3	23.1	36.0	77.2
NAV relative to Vietnam VN30 index	0.9	0.8	3.9	2.3	16.0	31.7	11.1
Price relative to MSCI Emerging Markets	1.4	(5.1)	(11.4)	(4.1)	35.1	59.9	117.0
NAV relative to MSCI Emerging Markets	(1.8)	0.9	(8.6)	(6.9)	27.4	54.9	36.1

Source: Refinitiv, Edison Investment Research. Note: Data to end-April 2019. Geometric calculation.

Exhibit 7: NAV total return performance relative to VN Index over five years



Source: Refinitiv, Edison Investment Research

Discount: Narrower than three-year average

VEIL currently trades on a discount to NAV of 15.0%, which is slightly wider than the three-year average of 14.4%. The board's objective is to avoid large fluctuations in the discount relative to similar single country investment companies investing in Asia ex-Japan, taking market conditions into consideration. It has the ability to manage an imbalance in the supply and demand for the shares through share repurchases.

Exhibit 8: Share price discount to NAV (including income) over three years (%)



Source: Refinitiv, Edison Investment Research

Capital structure and fees

VEIL has two classes of shares in issue: ordinary shares and non-redeemable management shares. There are 1,000 management shares in issue, which are all owned by Dragon Capital. These confer the right to appoint two directors to the board and the shares carry one vote each but are not entitled to dividends. In a wind-up situation, ordinary shareholders have priority over management shareholders in the return of capital. The board has authority (renewed annually) to repurchase up to 14.99% of shares in issue and during 2018, the company repurchased 2.4m shares at a total cost of \$0.6m. There are currently 219.7m ordinary shares in issue and a further 1.4m held in treasury.

VEIL is permitted to borrow up to 20% of its NAV. As at end-December 2018, the company had a \$60m loan facility with Standard Chartered Bank, of which \$40m has been drawn, and net gearing was 1.2% as at end-April 2018. The investment manager, Enterprise Investment Management, a

subsidiary of Dragon Capital, is paid an annual management fee of 2.0% on assets up to \$1.25bn, reducing to 1.75% on assets between \$1.25bn and \$1.5bn, above which the fee reduces further to 1.5%. No performance fees are paid.

Dividend policy and record

VEIL's objective is to deliver capital growth for shareholders over the medium to long term, rather than income. No dividends have been paid since its inception.

Peer group comparison

Exhibit 9 shows 10 members of the AIC Country Specialists – Asia Pacific sector (excluding private equity focused funds and funds with less than a one-year track record). This is a diverse group of funds investing in countries across a wide economic development spectrum, therefore, we focus on comparisons against the Vietnam subgroup. VEIL is the largest fund in the subgroup. Its NAV total return ranks second over one and 10 years, and first over three and five years. VEIL's ongoing charge is the lowest amongst the Vietnam funds and there no performance fees. Its discount to cum-fair NAV, while one of the widest in the broader sector peer group ranking eighth, is the narrowest amongst subgroup peers.

% 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 Enterprise Investments	954.6	(6.2)	99.3	149.0	229.8	(15.0)	2.25	No	101	0.0
Aberdeen New India	274.7	1.7	49.5	108.8	282.0	(12.1)	1.23	No	105	0.8
Aberdeen New Thai	91.9	0.3	46.4	57.6	425.3	(12.7)	1.45	No	104	3.2
Fidelity China Special Situations	1,217.3	(3.4)	66.8	153.6		(7.6)	1.11	Yes	126	1.6
India Capital Growth	97.1	(12.8)	39.7	100.4	164.1	(10.1)	2.02	No	100	0.0
JPMorgan Chinese	204.7	(0.8)	80.6	111.9	222.5	(11.2)	1.34	No	107	1.2
JPMorgan Indian	745.6	(1.4)	38.8	95.1	188.8	(11.5)	1.09	No	100	0.5
VietNam Holding	89.2	(14.2)	30.0	77.7	264.7	(18.2)	2.59	Yes	100	0.0
VinaCapital Vietnam Opportunity Fund	629.4	(3.0)	71.6	116.2	225.9	(15.2)	2.39	Yes	100	2.5
Weiss Korea Opportunity	125.3	(13.7)	20.8	42.4		3.8	2.34	No	100	2.3
Peer group average	443.0	(5.3)	54.3	101.3	250.4	(11.0)	1.78		104	1.2
Rank in peer group	2	7	1	2	4	8	4		5	8
Vietnam subgroup average	557.7	(7.8)	67.0	114.3	240.1	(16.1)	2.40		101	0.8
Rank in subgroup	1	2	1	1	2	1	3		1	2

Source: Morningstar, Bloomberg, Edison Investment Research. Note: *Performance data to end-April 2019. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

The board consists of five directors, four of whom are independent and non-executive, and a fifth non-independent member, Dominic Scriven (appointed in May 1995), who is the founder of Dragon Capital. Following more than nine years of service, Chairman Wolfgang Bertelsmeier (appointed July 2009 and appointed chairman in November 2013) will resign from the board on 30 June 2019. He will be succeeded by Stanley Chou, the current senior independent director (appointed January 2016). On 16 May 2019, the board announced the appointment of professor Entela Benz-Saliasi as non-executive director with immediate effect. She is an adjunct associate professor at the University of Science and Technology, Hong Kong and a consultant on ESG investing. The other directors are Derek Loh (appointed March 2011), Gordon Lawson (appointed July 2014) and Vi Le Peterson (appointed April 2018).

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