VinaLand

Realisations set to increase

Investment companies

The property market in Vietnam has been weak for several years and in late 2012 VinaLand (VNL) introduced a realisation-focused investment strategy. This year, despite a brief spike in tensions with China, the economic background seems more stable and there are tentative signs of improvement in the property market. This should increase the chances of a faster pace of realisations at close to or above NAV. In this context, while uncertainties remain, the scope for a narrowing of the current c 40% discount to NAV seems significant.

12 months ending	Total share price return	Total NAV return	Vietnam VN Index return US$ (%)	Total return MSCI AC Asia ex Japan	Total return MSCI World Index
31/08/11	(4.9)	(1.5)	(9.7)	9.8	15.1
31/08/12	(40.2)	(14.9)	(2.1)	(2.7)	8.8
31/08/13	(5.2)	(18.4)	22.3	7.2	18.3
31/08/14	30.6	(1.1)	40.0	21.6	21.7

Source: Thomson Datastream. Note: All total returns in US$ terms.

Looking to increase pace of realisation

VNL's investment objective is to achieve medium- to long-term growth through investment primarily in Vietnamese property and development projects. The long-term potential for property in Vietnam remains promising as the economy matures and the requirement for property assets increases. In November 2012 a weak property market and wide discount to NAV prompted VNL to adopt an increased focus on realisation and returns to shareholders over a three-year period from November 2012. To date, realisations have totalled US$62.2m out of an estimated total of US$233.2m and distributions about US$19.7m out of US$113.0m. This points to a potential acceleration of disposals over the next year, something that now seems more likely given a modestly improving economic environment.

More stable background and some positive signs

The Vietnamese economy now appears to be on a more even keel following a period of high inflation and consequently high policy rates. Inflation is running at under 5%, interest rates have fallen, exports have been growing strongly and Q2 GDP saw a modest increase. Growth over the next few years is expected to average just below 6% (IMF estimates). There are also some more positive signs in the property market, including a small increase in residential sales; VNL's largest exposure within the property market is to the residential sector.

Valuation: Discount still very wide

During the recent economic slowdown the discount to NAV peaked at over 60% in late 2012. VNL's NAV has been flat over the last year, reflecting the way property values tend to lag forward-looking stockmarkets, but confirmation of the positive signals in the economy and property market could spark a significant further narrowing of the discount from its current level of c 40%.

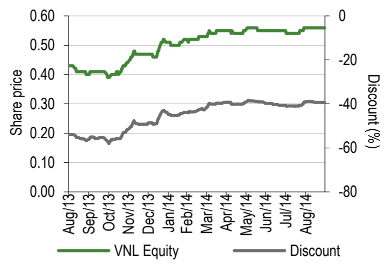
1 October 2014

Price	**US$0.56**
Market cap	**US$249m**
NAV	US$0.92
Discount to NAV*	39.1%
Yield	Nil

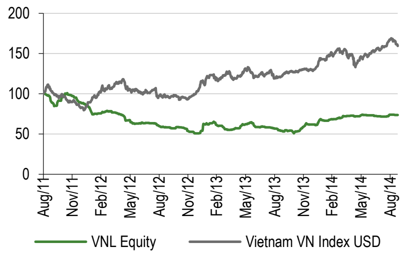
*As at 30 June 2014.

Ordinary shares in issue	446.6m
Code	VNL
Primary exchange	AIM
AIC sector	Asia Pacific Vietnam

Share price/discount performance



Three-year cumulative perf. graph



52-week high/low	US$0.56	US$0.39
NAV* high/low	US$0.92	US$0.91

*Excluding income.

Gearing (as of 31 August)

Fund (ZDP)	6.2%
Projects	16.9%

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Edison profile page

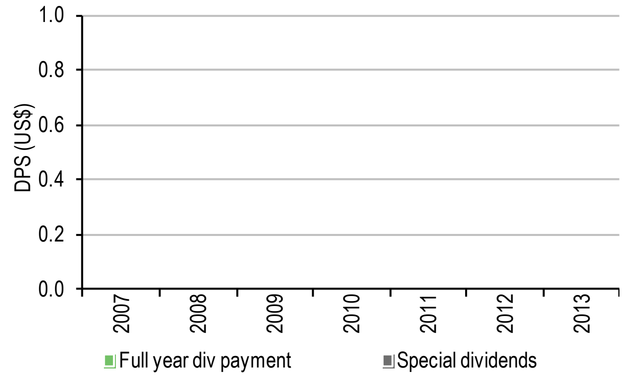
VinaLand is a research client of Edison Investment Research Limited

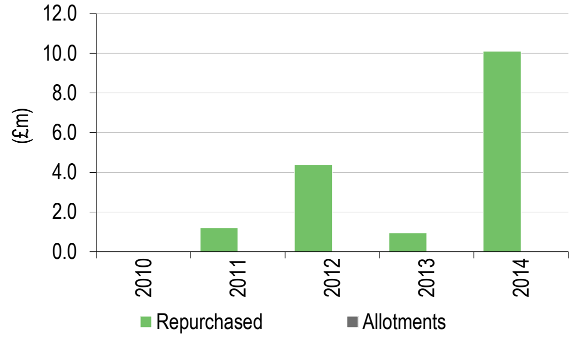
Exhibit 1: Trust at a glance

Investment objective and fund background	Recent developments
VinaLand (VNL) is a closed-end Cayman Islands registered, exempted company. It was launched in 2006 to target medium- to long-term capital appreciation with some recurring income, through investment in a diversified portfolio of mainly Vietnamese property and property development projects. In November 2012 shareholders approved a new strategy with increased focus on asset realisation and cash distribution.	■ 26 September: 0.7m shares repurchased at average price US$0.555. Took overall repurchases to US$28.6m or 10.68% of shares in issue. ■ 25 July: Sale of Marie Curie project for a net US$10.9m. ■ 18 July: Sale of hospitality investments for a net US$19.9m.

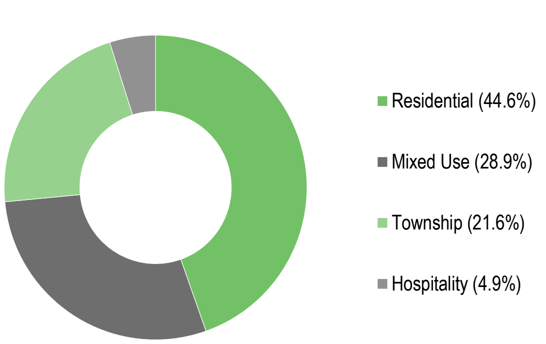
Forthcoming		Capital structure		Fund details	
AGM	Q414	TER FY13	2.15%	Group	VinaCapital
Q4 calendar 2013 report	February 2014	Project level gearing	15.5%	Manager	David Blackhall
Year end	30 June	Fund level gearing	5.6%	Address	17th Floor, Sun Wah Tower 115 Nguyen Hue, Dist. 1 Ho Chi Minh City, Vietnam
Dividend paid	N/A	Annual mgmt fee	See page 9		
Continuation vote	November 2015	Trust life	Indefinite	Phone	+848 3821 9930
		Loan facilities	N/A	Website	www.vinacapital.com

Dividend policy and history	Share buyback policy and history
VinaLand has not paid dividends so far, preferring to make distributions to shareholders via buybacks.	The share buyback programme was started in October 2011 following investor feedback as to the best method of distribution. The programme is ongoing, as agreed by the board, and all shares acquired under the programme are cancelled.

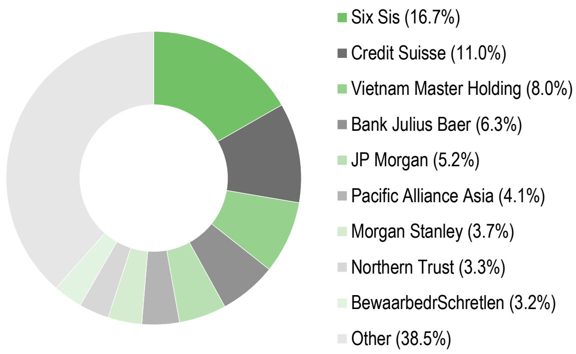




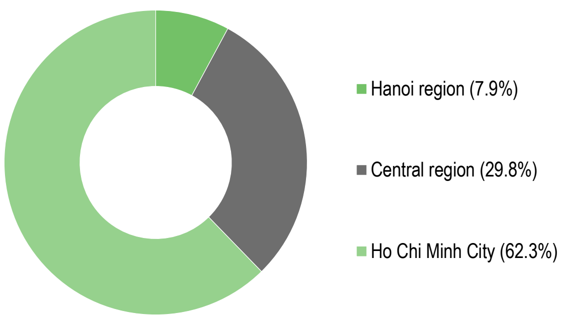
Portfolio composition by property type (as at 31 August 2014)



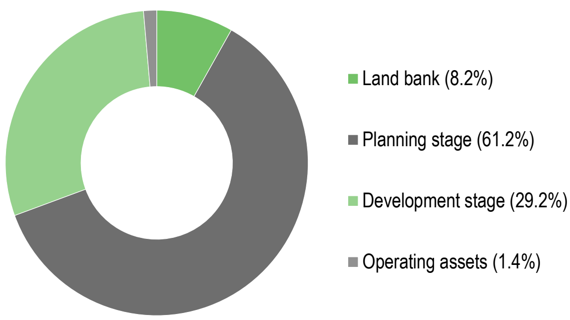
Shareholder structure (as at 30 June 2014)



Portfolio composition by region (as at 31 August 2014)



Portfolio composition by stage of development (as at 31 August 2014)

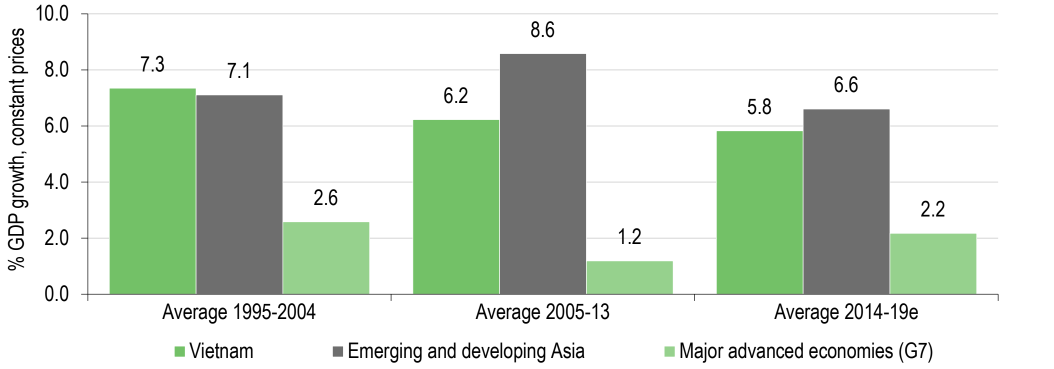


Source: VinaLand, Edison Investment Research. Note: VNL's NAV data are calculated on a quarterly basis.

Vietnam economic backdrop: Growing stability

Vietnam has strong growth potential based on its favourable demographic profile, with 23% of its c 90 million under 14 years old, plentiful natural resources and evolution from a centrally planned communist economy to one that is increasingly market-based. There was strong growth in the period leading up to the financial crisis (averaging over 7% pa 2000-14), as the government applied the principles of the Chinese socialist market economic model to a traditionally agrarian economy[1] damaged by decades of civil war. Despite the high rate of growth, GDP per capita remains around a third of that of Thailand and China, and since the global financial crisis Vietnamese economic growth has struggled to match earlier growth rates. The economy recovered quickly after the credit crunch, boosted by loose fiscal and monetary policy, but inflation rose to a peak of 23% in 2011 and corrective measures caused a sharp subsequent slowdown in GDP growth.

Exhibit 2: Real GDP growth – Vietnam vs developing Asia and advanced economies



Source: IMF April 2014 WEO, Edison Investment Research. Note: G7 = Canada, France, Germany, Italy, Japan, the UK and the US. The IMF has subsequently trimmed its 2014 forecast for the US from 2.8% to 2.0%.

More recently inflation has moderated with average consumer price inflation of 4.7% in the first eight months of 2014, export growth of 14% over the same period and a modest pick-up in GDP growth in Q214 (+5.25%). Current year forecasts generally fall in a range between 5.4% and 5.8% and, as Exhibit 2 shows, IMF estimates for Vietnam's average growth between 2014 and 2019, while shy of the emerging Asia average, are still well above the expectation for advanced countries at 5.8% versus 2.2%.

Prospective economic growth will be contingent on a series of external and internal factors. Externally, risk factors could be a setback in the rate of growth in advanced countries, a blip in China's growth normalisation or a renewal of territorial tensions with China. Internally, the success or otherwise of government policy measures to help deal with the legacy of bad debts in the banking system and to restructure state-owned enterprises (SOEs) are likely to be key factors influencing the medium- to longer-term health of the Vietnamese economy, and within this the property market. While there is some way to go, action has been taken to tackle the bad debts that are inhibiting the banking system through the creation of a state-owned asset management company (VAMC); this has so far acquired bad debts of VND59tn (US$2.8bn) out of a target of VND70-100tn. It remains to be seen how effectively these are managed and whether remaining bank loan classification has been sufficiently conservative. As far as SOEs are concerned, there appears to be a genuine focus in the government on addressing their inefficiencies through a programme of privatisation (or equitisation) of 400 of the c 1,200 companies. Successful implementation could contribute to positive growth surprises over the medium term.

1 Agriculture still accounts for 18% of GDP: similar to India, but well above China at 10% (World Bank).

Vietnamese property: Light at the end of the tunnel

The long-term prospects for the property market in Vietnam should be attractive given the scope for development in the economy and hence a growing requirement for a range of commercial, retail and residential property. In recent years, however, increased interest rates and slower economic growth resulted in a tough period in the property market with subdued demand and oversupply in some areas resulting in falling prices and rents. This can be illustrated in the residential sector, which is where VinaLand has its largest exposure. In 2011 as the economic slowdown took effect, VNL reported Ho Chi Minh City condominium prices fell by 13-15% in Q2, while in the year to June 2012 the condominium market was again hit hard with prices down between 15-25% in the mid-range segment. Landed property (villas and townhouses) saw less severe price falls, but the trend was still negative with declines in the 10-20% range. Both segments saw further but smaller price reductions in the year to June 2013. Other sectors including retail and hospitality (hotels) also bore the impact of economic weakness and the resulting oversupply of space.

More recently there have been signs of a bottoming out of the market as the economy stabilises with lower interest rates and greater availability of credit being key stimulants for the property market. Drawing together commentary from CBRE and JLL, a mixed but partially encouraging picture emerges. In residential, increased sales were reported for the second quarter of this year in both Ho Chi Minh City and Hanoi, giving five consecutive quarters of increased sales in the former. At the moment activity is focused on the more affordable mid- and low-end parts of the market and developers have been modifying their plans to reflect this. In Ho Chi Minh City there have been marginal increases in secondary condominium prices, but landed property prices have continued to trend lower, albeit at a more modest pace. The retail sector remains relatively soft, with weak demand the main driver of the continued downtrend in rents. The office market in the two centres is differentiated by greater supply in Hanoi, which has affected pricing in the near term, while Ho Chi Minh City, with moderate demand and supply yet to increase, has experienced steady rents. In hospitality the tensions with China affected visitor numbers, but this is not expected to be a long-term factor. Prospectively, significant new developments in Ho Chi Minh City could depress hotel occupancy and rates depending on the balance of demand and increased capacity.

Looking ahead, continued implementation of measures to improve the health of the banking system is probably the most important factor to monitor as a contributor to progress in the property market. As noted in the previous section, the macroeconomic backdrop appears to be more stable and, absent adverse external developments, existing forecasts for GDP growth should provide a favourable backdrop for the property sector. Specific law changes could also be helpful for investors such as VNL, including the new 2013 land law allowing land allocation to foreign investors and a measure that permitted investors to sell land where infrastructure has been put in place rather than requiring full development of a residential property.

Fund profile

VinaLand (VNL) is a closed-end investment company incorporated in the Cayman Islands. It is engaged in property investment and property development, predominantly in Vietnam but with the potential to include surrounding Asian countries. It currently has a portfolio of real estate development projects and real estate assets in Vietnam. VNL was launched and admitted to the AIM market in March 2006, and is managed by VinaCapital Investment Management (VCIM).

VCIM is part of the VinaCapital Group, a leading asset management and real estate development firm in Vietnam, with a diversified portfolio of approximately US$1.5bn of assets under management. VinaCapital Group was founded in 2003, and has asset class teams covering capital markets, private equity, fixed income and venture capital, as well as real estate and infrastructure.

Within VCIM, the VNL investment team is led by Managing Director David Blackhall, who is manager of the fund and has 30 years' experience in property and construction, including 20 in real estate asset and fund management. He is assisted by deputy managing directors Anthony House and Oai Nguyen; House has spent 26 years in real estate development and construction management, while Nguyen has been involved in real estate investment funds and asset management for 19 years. The investment team is supported by 40 staff. Following the adoption of a revised strategy in November 2012, the company entered a three-year period during which it is focused on realisation and capital returns; reflecting this, the investment team has been restructured so as to focus more resources on divestment, land licensing and approvals, intended to expedite the completion of exits.

The original investment objective was to achieve medium- to long-term (three-to-five years) capital appreciation and give shareholders an attractive level of income (from interest and dividends). However, the fund is now in a cash return period and intends to make no new investments other than where investment is required for existing projects. The aim is to realise assets while continuing the limited development of selected projects to maximise value.

The fund manager: David Blackhall

The manager's view: Bottoming out

David Blackhall sees the macro background in Vietnam as continuing to improve with generally greater stability and definite improvements in the shape of lower inflation and interest rates. Of direct relevance to the property market is the fact that the banks now have greater liquidity and that mortgage rates have fallen. The concerns surrounding non-performing loans appear to have eased with the VAMC and banks' internal actions contributing to this change. Anecdotally, the fact that the manager reports that banks are now approaching VNL itself with offers of finance may be a significant positive indicator for the sector.

Blackhall notes a gradual improvement in residential sales, which is still modest but nevertheless welcome. He believes buyers have taken the view that property prices will not get a lot cheaper, while lower deposit and mortgage rates act as an encouragement to make a purchase rather than keeping money on deposit. Landed property remains more sought after, but condominium sales are picking up. Currently the costs of running VNL's residential projects largely absorb disposal proceeds, but this could change rapidly if the rate of sales ramps up. The retail sector is seen as less positive, with supply outpacing demand in Hanoi. The hospitality market is described as mixed with short-term effects from tensions with China and increased supply affecting some areas. Nevertheless, trading in city hotels is satisfactory and the momentum in resort hotels has improved.

The manager identifies infrastructure investment taking place in Vietnam as a positive factor, not only for the economy generally, but specifically for some of its investments in Ho Chi Minh City and Hanoi. In Ho Chi Minh City, projects include new bridges, flyovers and the first two (of six) metro lines. Most significant for VNL, however, is the Long Thanh-Dau Giay highway, which links the city with a number of regions and VNL's Century 21 residential project (16.8% of NAV) directly with the new Long Thanh International Airport. In Hanoi, infrastructure projects also include a number of bridges and a metro line (Number 2).

Obtaining and managing licences that permit development is important in enabling realisation and enhancing value; Blackhall highlights the complexity of the licensing regime in Vietnam and the experience the team at VinaCapital brings to bear in managing this. In VNL's June quarterly update he outlines 10 stages that might be involved in gaining approval for a typical land acquisition and development, with an indicative timeline of between about two and four years. In the process a developer needs to liaise with more than 10 government ministries/agencies. Licensing-related work continues after the initial phase, with the need to revise plans and hence permissions as market conditions or buyer requirements change. There have also been a few cases where licences have been withdrawn, but the manager has been able negotiate this to VNL's advantage. With 27 investments in VNL's portfolio, effective management of licensing and approvals is a key task for the manager.

Asset allocation and strategy

Portfolio summary

As at the end of June 2014 the portfolio had an aggregate NAV of US$421.2m and, as noted above, it comprised 27 investments at end August, including four in the process of construction and sales and four operating hospitality assets. Of the 46 investments made by the fund since launch, 19 have now been divested, including two announcements in July (two hospitality investments and the Marie Curie project). The top 10 investments by value accounted for 73.8% of the total NAV at end June and are listed in Exhibit 3 (the end-August update showed a slightly higher figure of 75.5% for the top 10 reflecting the subsequent disposals).

The portfolio is a mixture of development and operating assets, diversified by sector and region. The majority of the portfolio is in the planning stage (62% of NAV), while the 28.6% of assets under development includes four key projects, of which Danang Beach Resort, Dai Phuoc Lotus and My Gia are residential or township developments (24.7%) and World Trade Center Danang is mixed use. The balance of the portfolio consists of land bank (8.1%) and operating assets (1.4%).

Given this profile, the fund has a relatively low level of recurring income, while revenues from the sale of residential units have been subdued, though showing signs of increase from that low level. At end June VNL's share of the projected outstanding investment in development projects through 2015 was US$31.2m.

Exhibit 3: Top 10 investments as at 30 June 2014

Investment	Location	Sector	VNL stake	VOF stake	Site area (ha)	NAV (US$)	% of VNL NAV	Status
Century 21	South	Residential	75.0%	25.0%	30.1	69.1	16.4%	Planning/licensing
Danang Beach Resort	Central	Residential	75.0%	25.0%	260	53.7	12.8%	Development
Dai Phuoc Lotus	South	Township	54.0%	18.0%	200.7	33.2	7.9%	Development
Times Square Hanoi	North	Mixed Use	65.0%	0.0%	4	26.9	6.4%	Planning/licensing
VinaSquare	South	Mixed Use	46.5%	15.5%	3.1	25.3	6.0%	Planning/licensing
Pavilion Square	South	Mixed Use	90.0%	0.0%	1.4	22.7	5.4%	Planning/licensing
Aqua City	South	Township	40.0%	0.0%	250.2	21.8	5.2%	Land bank-planning/basic infrastructure
Trinity Park	South	Residential	75.0%	25.0%	33.7	20.3	4.8%	Development
World Trade Center Danang	Central	Mixed Use	61.0%	20.3%	9	18.6	4.4%	Planning/licensing
Green Park Estate	South	Mixed Use	52.6%	28.3%	15.7	18.6	4.4%	Planning/licensing
Total of top 10 investments							73.8%	
Remaining investments							26.2%	
Total portfolio							100.0%	

Source: VNL. Note: A number of VNL's holding companies include VinaCapital Vietnam Opportunity Fund (VOF) as a minority partner. VOF investments are managed by VinaCapital, but VOF is not part of VNL's ownership structure.

Investment structure and valuation policy

Each of VNL's property investments is held within a Vietnam-incorporated entity or other investment structure, which in turn is owned by an offshore holding company, the location of which is determined by a number of factors, including regulatory structure and tax considerations. A number of VNL's offshore holding companies include VinaCapital Vietnam Opportunity Fund as a minority joint venture partner. Land assets are held at cost (less an impairment adjustment) until they receive an investment licence or similar documentation that represents a legally enforceable and transferable right of ownership. At 30 June 2014, 7.7% of NAV represented assets not yet revalued, and held on this basis, as prepayments. Once title has been received, assets are included in the annual revaluation programme. Revaluations are scheduled in a way that sees a part of the portfolio independently valued at the end of each quarter and every portfolio independently valued at least once in the preceding year. VNL uses a range of internationally recognised independent valuers, with two independent valuations taken at any valuation date; these are considered by the manager, which makes a recommendation to VNL's valuation committee, which meets four times during the year and in turn makes recommendations to the board for approval.

In addition to the annual revaluation cycle, the manager reviews the entire portfolio on a quarterly basis to determine whether there have been any material changes to projects or any other developments that would indicate a material change to property values.

Divestment progressing, but slower than expected

VNL has completed eight divestments since the November 2012 EGM, with combined net proceeds of US$62.2m and generating a reduction of more than US$36m in project-level bank debt consolidated in the VNL balance sheet.

VNL has made less progress with the divestment programme than initially expected, reflecting slower than expected economic recovery and the resulting weakness in the real estate market; lower market values since the programme was first announced also mean that the amounts targeted for realisation and distribution by FY15 are slightly reduced.

Exhibit 4: VNL's estimated realisation and distribution profile

US$m	Total	Nov 2012-May 2014 actual	Rest of 2014e	2015e
Opening cash balance	4.9	4.9	7.7	3.9
Collection from outstanding receivables	8.3	4.1	3	1.2
Cash from exits	233.2	47.8	25.3	160
Management fee	(23.0)	(12.1)	(4.3)	(6.5)
Operating expenses	(9.1)	(6.4)	(1.1)	(1.7)
Future capital commitments	(54.0)	(20.6)	(12.8)	(23.8)
Distribution	(113.0)	(10.0)	(17.1)	(85.9)
Estimated realisation fee	(28.2)	0	0	(28.2)
Closing cash balance	19.1	7.7	3.9	19.0

Source: VNL, 23 June 2014

Two disposals were announced in July this year, with the first being the sale of the Mövenpick Hanoi Hotel and some smaller operating hotels across Vietnam. The estimated net proceeds of US$19.9m are 5% above the end-March NAV. The second transaction was the sale of the Marie Curie mixed-use project in Ho Chi Minh City, set to raise a net US$10.9m.

VNL now estimates it will be able to divest up to US$233m (was originally US$250m) worth of assets by the end of 2015. The manager comments that this target is achievable, but will require considerable effort. After deducting management fees, operating expenses, future capital expenditure commitments and accrued performance fees, it is targeting shareholder returns of up to US$113m (originally US$142m). If we assume no increase in values before June 2015 and that future sales are achieved at NAV (the realisations to date have been made at an average c 9.5% premium to NAV), roughly half the current NAV (c US$420m) would remain at the end of the process. The manager remains hopeful that VNL will continue to sell assets at valuations at or above NAV. On the assumption that the disposal and distribution programme is successfully implemented, the current market cap of c US$250m, adjusted for US$113m of distributions, represents a discount of 51% to the residual net assets of US$270m (the current US$420m less distributions, realisation fee and expenses).

Exhibit 5: Realisations since November 2012

Project	Location	Property type	VNL ownership	Exit announced	Net proceeds	Exit value versus NAV at exit
30 Nguyen Du	Hanoi	Operating office	65.0%	Jan-13	US$3.2m	7.9%
Sheraton Hotel	Nha Trang	Operating hotel	66.7%	May-13	US$3.1m	15.1%
Signature One	HCMC	Residential development site	70.0%	Jul-13	US$2.7m	-3.3%
Hao Khang	HCMC	Residential development site	70.0%	Oct-13	US$4.6m	2.8%
Prodigy Pacific	Hanoi	Operating hotel	100.0%	Dec-13	US$1.7m	-5.5%
Vina Properties	Hanoi	Operating hotel	53.0%	Jan-14	US$16.1m	19.2%
Mövenpick & other	Hanoi & other	Operating hotels		Jul-14	US$19.9m	5.0%
Marie Currie	HCMC	Mixed Use development site	64.5%	Jul-14	US$10.9m	14.3%
Total/average					US$62.2m	9.5%

Source: VNL

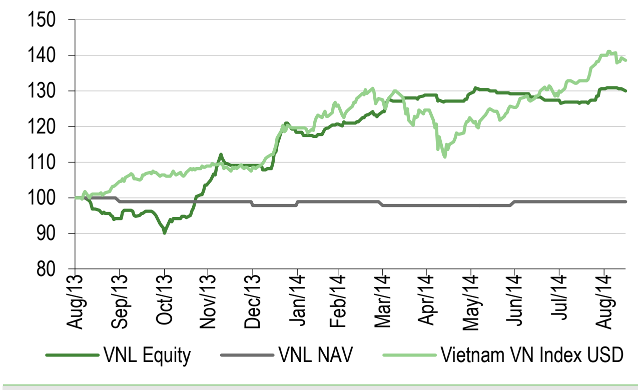
Future cash returns are most likely to be made through further share repurchases in the first instance, certainly until the discount narrows more substantially to below 25%. If a larger cash sum is realised, then VNL is more likely to consider other options, including a tender offer. The board has detected little support for dividend payments among shareholders.

Performance: Anticipating improvement

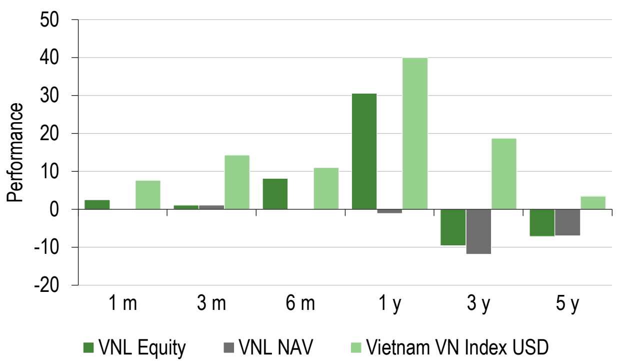
Over the year to end August, VNL shares were up just over 30%, only underperforming the VN Index by 9% despite a 1% decline in the NAV over the same period. The relatively sluggish response of the property market and valuations to changes in the economy provide an explanation of the NAV performance and the relative performance illustrated in Exhibit 7. The wide discount (see next section) is likely to have played a supportive role in the price performance. The stabilisation of VNL's NAV in more recent periods (see right-hand chart Exhibit 6) can be seen as encouraging given that the macro environment also seems be more stable and showing some signs of improvement (see page 3).

Exhibit 6: Investment company performance to 31 August 2014

Price, NAV and benchmark total return perf, one year



Price, NAV and benchmark total return performance (%)



Source: Thomson Datastream, Edison Investment Research. Note: Three- and five-year performance annualised.

Exhibit 7: Share price and NAV relative total return performance (geometric calculation), to 31 August 2014

	One month	Three months	Six months	One year	Three years	Five years
Price relative to Vietnam VN Index (US$)	(5.2)	(13.2)	(2.8)	(9.4)	(93.5)	(49.2)
NAV relative to Vietnam VN Index (US$)	(7.7)	(13.2)	(11.0)	(41.1)	(98.9)	(48.7)
Price versus MSCI AC Asia Ex Japan	1.8	(5.9)	(5.2)	9.1	(52.7)	(93.9)
NAV versus MSCI AC Asia Ex Japan	(0.7)	(6.0)	(13.4)	(22.6)	(58.1)	(93.4)
Price versus MSCI World Index	0.3	(1.4)	2.3	8.9	(82.6)	(114.7)
NAV versus MSCI World Index	(2.2)	(1.4)	(5.9)	(22.8)	(88.0)	(114.3)

Source: VinaLand, Thomson Datastream, Edison Investment Research

Discount: Wide, but less than it was

Reflecting growth expectations for Vietnam, VNL traded at a premium to NAV for most of the 2006-08 period, but then moved to a rapidly widening discount as the global financial crisis made an impact. More recently, the discount to NAV reached a peak of 63% in late 2012 (see Exhibit 8). This was around the time of the EGM approving the new investment and distribution strategy, and the discount has now narrowed to c 40%. Drivers of the narrowing are likely to have included the somewhat more positive views of the macroeconomic background and potentially greater confidence that VNL will be able to deliver its realisation programme at values close to or above NAV, supporting projected levels of distribution. As noted earlier, the manager believes the realisation programme is achievable, but that much work will be required. Nevertheless, given the still wide discount, it is possible that simply delivering close to the estimated profile (Exhibit 4) will be sufficient to prompt a further significant narrowing.

Since the EGM in November 2012, VNL has spent US$19.8m to buy back 36.8m shares or 7.4% of the shares in issue at the outset. The last purchase was 0.7m shares on 26 September 2014.

Exhibit 8: Discount to NAV over five years (%)

Source: VinaLand, Thomson Datastream. Note: Negative values indicate a discount.

Capital structure and fees

The fund has 446.6m ordinary shares outstanding and 15.0m zero dividend preference (ZDP) shares issued in December 2013. The c $25m proceeds of the ZDP issue provided additional flexibility in refinancing project-level debt facilities as these mature, and funding for potential capital investments, thereby facilitating realisation and strengthening VNL's hand in sale negotiations. The ZDP shares were issued by a wholly-owned subsidiary of VNL, VinaLand ZDP, established for this purpose. The funds raised were on-lent to VNL. The ZDP shares were issued at a price of 100p, with a final capital entitlement of 126p paid in 2016, a gross redemption yield of 8%. Additional security for the repayment of the loan made to VNL by the issuer has been provided in the form of a reserve account; this is a controlled bank account, in favour of the issuer, into which VNL will deposit 25% of any distributions made to VNL ordinary shareholders. Share buybacks of up to US$1m per month are allowed without the need to deposit funds in the reserve account. In practice, VNL does not intend to pay dividends to ordinary shareholders during the three years that the ZDP shares are in issue.

The fund has no limits on its authority to borrow, although before the ZDP issue, VNL had only project-level debt (on a non-recourse basis). At the end of December 2013 consolidated project-level debt stood at just over US$100m or 16% of total equity, while the ZDP debt was equivalent to 5.6% of shareholders' equity. Cash balances at that stage stood at US$53.8m.

The company was established with a life of seven years, but is now subject to a shareholder continuation vote every three years; the next continuation vote is due in November 2015.

To reflect the adoption of an accelerated asset realisation strategy at the November 2012 EGM, the old management fee based on a percentage (2%) of NAV was replaced with a declining, fixed fee structure. This was set at US$8.25m pa for the first year, ending on 21 November 2013, subsequently reducing to US$7.5m in year two, and US$6.25m in year three. Thereafter, the management contract and fee are subject to renegotiation, depending on the outcome of the continuation vote scheduled for November 2015. The new management fee structure generated an initial saving of c 25% (using net assets at the time) and sought to balance the need to reward the manager while encouraging a timely realisation of assets. To the same end, the previous performance fee was abolished, and performance fees accrued over previous years but not paid (US$28m) were deferred, and replaced with a realisation fee. The manager is entitled to realisation fees, up to an amount equivalent to the deferred performance fees (US$28m) based on distributions made to shareholders out of contracted realisations of assets, during the period up to November 2015. There is no payment of deferred fees until US$50m has been returned to shareholders (US$19.7m returned to date).

The total expense ratio for the financial year to June 2013 was 2.15% (FY12: 2.39%).

The board

In 2012 the board undertook a review of VNL's corporate governance to take account of the evolution in international standards and practices since launch. This resulted in a number of changes, including a commitment to enhanced transparency for shareholders, the introduction of annual general meetings (from November 2013), a reduction in the size of the board from seven members to five, and the introduction of a policy of director rotation, with one-third of directors retiring each year and standing for re-election at the AGM.

The five members, all independent of the fund manager, are Michel Casselman (chairman from November 2013, director since 2011), Nicholas Brooke (previously chairman 2010-13 and a director since inception in 2006), Nicholas Allen (appointed 2010), Charles Isaac (director since 2011) and Daniel McDonald (appointed February 2014).

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