

Vietnam Enterprise Investments

Long-established track record and local expertise

Vietnam Enterprise Investments (VEIL) was launched in 1995 and is the largest and longest established, closed-ended investment company, which is focused on Vietnam listed equities. VEIL is listed on the LSE and became a member of the FTSE 250 in July 2017. It has a capital growth objective, managed by an experienced and well-resourced investment team, following a disciplined bottom-up, fundamental approach to stock selection, resulting in a portfolio of c 35-40 holdings. Although Vietnam equities have performed strongly over the past two years, the manager believes the government's pipeline of privatisations and divestments over the next two years offers excellent investment opportunities, which could continue to attract foreign and domestic investors.

12 months ending	Total share price return (%)	Total NAV return (%)	Vietnam VN Index (%)	Vietnam VN30 Index (%)	MSCI Emerging Markets (%)
30/11/13	32.7	36.9	36.1	30.0	1.8
30/11/14	26.1	16.7	19.9	14.8	6.1
30/11/15	7.5	8.2	3.7	(3.0)	(13.3)
30/11/16	50.7	49.9	42.5	32.9	31.2
30/11/17	44.0	41.2	36.2	41.2	23.0

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

Investment strategy: Disciplined and fundamental

VEIL's investment objective is to achieve medium- to long-term capital growth. It has a bottom-up, fundamental approach to building a relatively concentrated portfolio of c 35-40 companies, diversified across a broad range of sectors. As one of the longest established funds focused on and based in Vietnam, VEIL has an experienced and well-resourced investment team, comprising three portfolio managers and 10 analysts. Valuation discipline and corporate governance considerations are key elements of the investment process.

Market outlook: Attractive pipeline

Vietnam's economy has been accelerating, reporting Q317 GDP growth of 7.5% pa vs 5.3% pa for H117, and manufacturing indicators augur well for continued economic expansion. Meanwhile, there is little inflationary pressure and the banking system is in good health. Over the medium to long term, urbanisation trends and a rapidly growing middle class help underpin prospects for sustainable growth. The Vietnam equities market has performed strongly year to 15 December 2017, the VN Index total return is up 34.3% in sterling terms, while VEIL's NAV total return is up 44.5%. Despite this performance, the manager still finds opportunities outside the largest stocks and a strong pipeline of government privatisations and divestments is helping to attract significant foreign and domestic investor interest.

Valuation: Discount to NAV of 15.5%

VEIL's share price trades at a 15.5% discount to NAV, narrower than its three-year average of 16.8%, having ranged from 7.8% to 24.2% over the period. The company has the ability to manage the discount for its shares through repurchases.

Investment companies

20 December 2017

Price 430.0p
Market cap £947.0m
AUM £1,120.3m

NAV* 509.0p
Discount to NAV 15.5%

*Excluding income. As at 15 December 2017.

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 432.9p 275.8p
NAV* high/low 518.0p 340.0p

*Excluding income.

Gearing

Gross* 2.9%
Net cash* 3.2%

*As at 31 October, 2017.

Analysts

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Exhibit 1: Company 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.

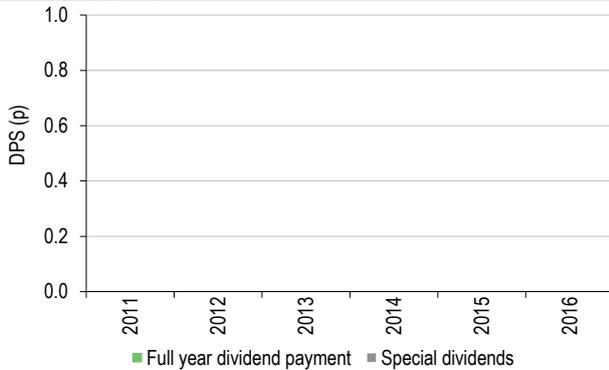
Recent developments

- 19 October 2017: Marc Faber resigns as non-executive director.
- 20 September 2017: Interim results to 30 June 2017 - NAV total return +20.5% in sterling terms versus +7.9% for the VN Index.
- 18 July 2017: VEIL's ordinary shares included in the FTSE 250 Index.
- 14 July 2017: New tiered annual management fee from 1 August 2017 – 2.00% on net assets up to US\$1.25bn; 1.75% up to US\$1.50bn; 1.50% above US\$1.50bn.

Forthcoming		Capital structure		Fund details	
AGM	June 2018	Ongoing charges	2.16% (see page 7)	Group	Dragon Capital
Interim results	September 2018	Net cash	3.2%	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	Trust life	Indefinite	Website	www.veil-dragoncapital.com
Continuation vote	None	Loan facilities	US\$38m outstanding loan		

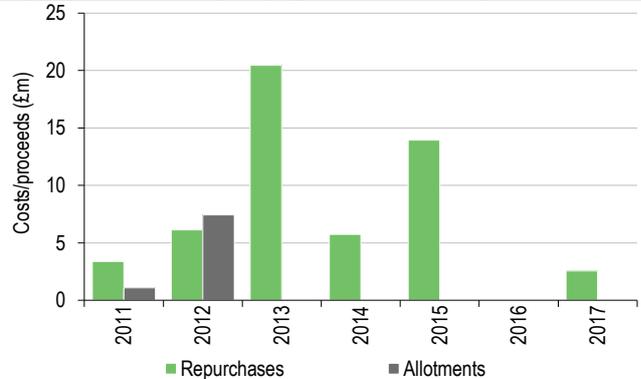
Dividend policy and history (financial years)

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

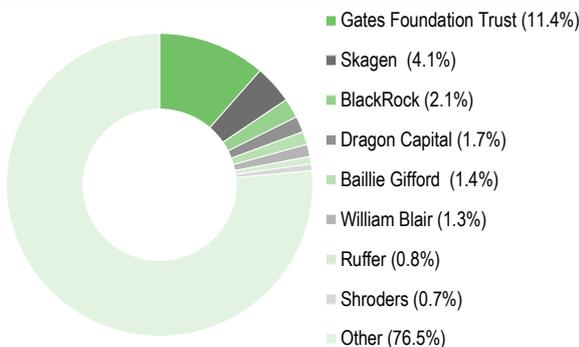


Share buyback policy and history (financial years)

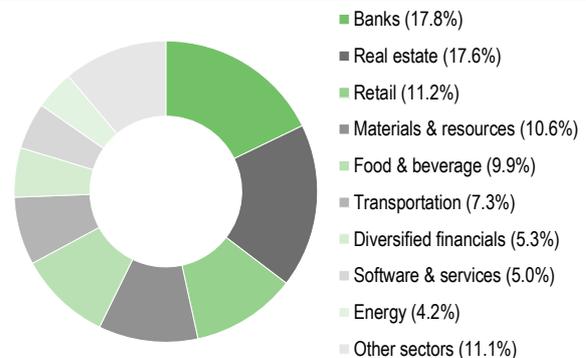
VEIL has annually renewed authority to repurchase up to 14.99% of its issued capital. The most recent buyback programme was in February 2017.



Shareholder base (as at 6 December 2017)



Portfolio exposure by sector (as at 31 October 2017)



Top 10 holdings (as at 31 October 2017)

Company	Sector	First invested	Portfolio weight %		VN index weight %
			31 Oct 2017	31 Oct 2016*	31 Oct 2017**
Mobile World	Retail	October 2014	10.1	5.6	1.8
Vinamilk	Food & beverages	October 2003	7.2	18.5	10.2
Military Bank	Banks	March 2010	6.5	5.7	1.9
Asia Commercial Bank	Banks	December 1996	6.4	5.0	N/A
FPT Corp	Technology	March 2008	5.0	6.1	1.3
Khang Dien House	Property	November 2013	4.8	3.3	0.3
PV Gas	Energy	November 2010	4.2	5.3	6.4
ACV	Transport	December 2015	4.0	2.7	N/A
Hoa Phat Group	Materials & resources	June 2009	3.7	4.8	2.6
Vietjet Air	Transport	December 2016	3.2	N/A	2.4
Top 10 at each date			55.1	56.9	62.3

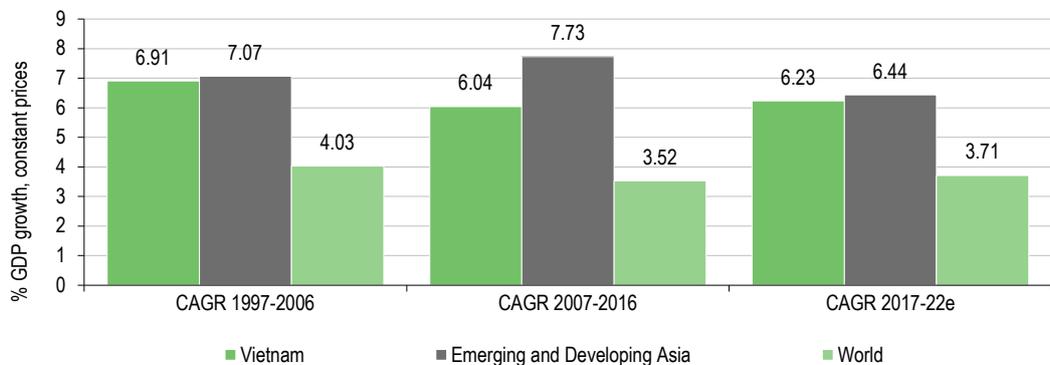
Source: VEIL, Edison Investment Research, Bloomberg, Thomson Reuters. Note: *N/A where not in October 2016 portfolio. **N/A where not a constituent of the VN index.

Market outlook: Favourable environment

The VN Index has performed strongly year to date, gaining 43% in US\$ terms to end-November 2017. Foreign net inflows at US\$612m for the nine months to end-September 2017 were a record high, while domestic investors have also been active. Although the hoped-for inclusion of Vietnam in the MSCI Emerging Markets index did not transpire this June, foreign investor interest continued to be attracted by IPOs and further divestments of state-owned companies (SOEs). Foreign buyers taking strategic stakes in Vietnam companies has helped to lift the profile and valuation of the Vietnam equities market. The Jardine Group acquired around 10% of Vietnam's largest listed company, Vinamilk (VNM), buying in the government auction, as well as the open market at a significant foreign premium to the underlying share price. Sabeco, Vietnam's largest brewer, is also expected to attract significant foreign strategic interest in its next divestment tranche, scheduled for the end of this year. As shown in Exhibit 3, the VN Index valuation now appears expensive relative to its own history and relative to MSCI Asia ex-Japan. Consensus 2017 earnings expectations for Vietnam, however, are higher at c 20% EPS growth versus c 15% for Asia Ex-Japan, while ROE is forecast at over 15% compared to 12% in Asia.

Vietnam's economic environment is favourable, with GDP growth accelerating from 5.7% pa in H117 to 7.5% pa in Q317. Manufacturing was a key driver, in particular strong output by foreign companies such as Samsung and Formosa. An improvement in September headline manufacturing PMI to 53.3 augurs well for continued economic expansion towards meeting the government's target for 6.6% 2017 GDP growth. As shown in Exhibit 2, IMF expectations for Vietnam's GDP growth rate over the next five years are comparable with that of the Asia region, having lagged the previous five years, and are significantly higher than forecast for the world.

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



Source: IMF October 2017 WEO, Edison Investment Research

Exhibit 3: Vietnamese market valuation metrics



Source: Thomson Datastream, Bloomberg, Edison Investment Research

Fund profile: Vietnam specialist

VEIL was launched in 1995 as a closed-ended fund, incorporated in the Cayman Islands. Its shares were admitted to the Main Market of the London Stock Exchange (LSE) in July 2016, de-listing from the Irish Stock Exchange, and included in the FTSE 250 Index on 18 July 2017.

VEIL is the largest and longest established fund focused on Vietnam equities, with an investment objective of outperforming the VN Index (a capitalisation-weighted index of all companies listed on the HSX) on a rolling three-year basis, although not constrained by index weightings. It seeks to achieve its objective through a bottom-up, fundamental approach to stock selection, placing considerable weight on disciplined valuation and good corporate governance. The portfolio is relatively concentrated, comprising around 35-40 stocks, well diversified across a broad range of sectors. Most of the holdings are listed on the Ho Chi Minh Stock Exchange (HSX), Hanoi Stock Exchange (HNX) and the Unlisted Public Companies Market (UPCoM), a purpose of which is to receive newly-listed state-owned companies, which then must transfer to the HSX or HNX within one year. As at end-October 2017, unlisted companies comprised 5.7% of the portfolio.

The fund manager: Vu Huu Dien

The manager's view: Bright prospects, valuations not excessive

The manager views the economic environment as favourable for Vietnam equities. The government's official GDP growth target of 6.6% in 2017, places Vietnam amongst the fastest growing economies in the Asia. Furthermore, Vu believes the quality of Vietnam's growth is improving, with rising productivity, a recovery in credit quality in the banking system and little inflationary pressure. Valuations for the VNI appear expensive relative to its own history. However, the manager focuses on Dragon Capital's universe of top 50 'investible' companies across the HSX and the HNX, which exclude companies that do not meet its basic investment criteria. Based on Dragon Capital's research, this universe is more reasonably valued at 17x 2017 and 14x 2018 P/Es, with EPS growth forecast for 19% and 20% respectively.

The manager believes further SOE privatisations and divestments, as well as private sector listings, could provide catalysts for continued positive performance of Vietnam equities over the next few years. He observes that the pipeline of companies earmarked by the government for privatisation and divestment includes many important Vietnam franchises, offering "once in a lifetime" investment opportunities. With a persistent fiscal deficit of 6% of GDP, the manager believes the government is motivated to accelerate asset sales, which have been slower than expected over the past couple of years. The current privatisation programme, which started in 2014, has raised around US\$2.2bn thus far, and the future pipeline indicates that up to US\$18bn in IPOs and secondary divestments is expected to take place through to the end of 2019, which will be in addition to a further US\$2bn in private sector listings. Furthermore, the manager believes the government will likely take measures to encourage listed companies that are legally permitted to lift foreign ownership limits (FOLs). This would help attract foreign inflows as well as help address the 'market access' impediment to Vietnam's inclusion in the MSCI Asia ex-Japan Index, as around one-third of the Vietnam equities market, by market capitalisation, has reached the FOL.

VEIL is well-prepared to participate in upcoming listings, with a strong local reputation as a long-term institutional investor, a track record of investing in IPOs and the resources to carry out its own in-depth research into these companies. The pipeline suggests banks and property companies will dominate the upcoming listings and divestments. The manager views this positively, as these sectors fit well with VEIL's investment themes of a growing middle class, deeper financial penetration and urbanisation in an economy where 65% of the population is still rural.

Asset allocation

Investment process: Bottom-up and disciplined

VEIL's investment process is bottom-up and fundamental, selectively looking for companies with long-term investment potential for its relatively concentrated portfolio of c 35-40 holdings. Meeting managements is a key part of the process, which seeks to identify companies with strong, well-positioned business models, operational discipline and good corporate governance, at reasonable valuations. The ability to assess companies that are yet to list, or have relatively recently listed, is important to VEIL's investment strategy. The investment team is well-resourced with 10 research analysts, covering 70-80 companies to support the fund's three PMs, led by Vu Huu Dien. All new investment decisions are reviewed by an investment advisory committee (IAC), comprising Dragon Capital senior managers CEO Le Minh Anh, Deputy CEO Alex Pasikowski, CIO Bill Stoops and CRO Gavin Patterson. The committee meets monthly to discuss matters raised by the portfolio managers as well as to conduct its own portfolio review to ensure VEIL is on track to meet its investment objectives.

Current portfolio positioning

As shown in Exhibit 4, the largest exposures within VEIL are to the banks and real estate. This will likely continue, given that the pipeline of SOE privatisations and divestments is skewed towards companies in these sectors. The manager maintains a positive view on the banking sector in Vietnam, which is benefiting from recent restructurings that have reduced non-performing loans and repaired balance sheets. Over the year, the real estate sector exposure has increased from 13.0% to 17.6%, partially attributable to strong performance from its holdings, but also due to additions to the portfolio, including participations in recent IPOs, Becamex and IDICO.

Exhibit 4: Portfolio sector exposure at end-October 2017						
% unless stated	Portfolio 31 Oct 2017	Portfolio 31 Oct 2016	Change (pp)	VN index weight	Active weight vs index	Trust weight/ index weight
Banks	17.8	16.2	1.6	18.8	(1.0)	0.9
Real estate	17.6	13.0	4.6	12.7	4.9	1.4
Retail	11.2	5.6	5.6	2.0	9.2	5.6
Materials & resources	10.6	9.3	1.3	5.8	4.8	1.8
Food & beverage	9.9	19.2	(9.3)	21.6	(11.7)	0.5
Transportation	7.3	3.1	4.2	3.6	3.7	2.0
Diversified financials	5.3	4.6	0.7	3.7	1.6	1.4
Software & services	5.0	6.1	(1.1)	1.3	3.7	3.8
Energy	4.2	8.0	(3.8)	10.2	(6.0)	0.4
Consumer durables	2.3	2.6	(0.3)	1.0	1.3	2.3
Automobiles & components	2.1	2.2	(0.1)	0.4	1.7	5.5
Capital goods	1.9	3.0	(1.1)	6.3	(4.4)	0.3
Pharmaceuticals	1.7	1.4	0.3	1.2	0.5	1.4
Other sectors	3.1	5.7	(2.6)	11.4	(8.3)	0.3
	100.0	100.0		100.0		

Source: VEIL, Edison Investment Research

Exposure to the retail sector has increased from 5.6% to 11.2%, mostly attributed to Mobile World Group (MWG), the largest holding in the portfolio at 10.1% as at end-October 2017, up from 5.6% the previous year, as a result of additional purchases and strong share price performance. The manager maintains his positive outlook for this company, as it builds out a "mini-market" business, targeted at lower-income neighbourhoods, which it views as highly scalable and aligned with VEIL's investment theme of rapidly growing consumption.

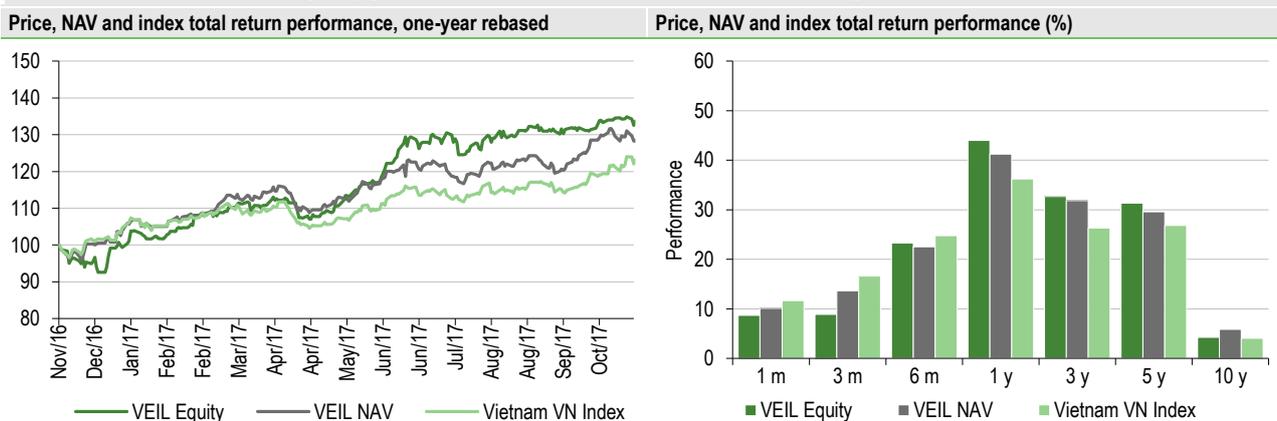
The food and beverage sector has been a source of funding for purchases, its weight falling by 9.3 percentage points to 9.9% of the portfolio, largely from reductions in VNM, which VEIL has held since its inception. As at end-October 2017, VNM was 7.2% of the portfolio, down from 18.5% a year earlier. Although the manager believes the company's prospects continue to be bright, its

valuation is now expensive relative to opportunities elsewhere. In November 2017, VEIL further reduced its VNM stake, taking advantage of a share price premium offered by the Jardine Group.

Performance: Solid long-term track record

As shown in Exhibits 5, 6 and 7, VEIL has a longstanding, positive track record of performance and NAV total return has outperformed the VN Index over one, three, five and 10 years. It has also outperformed the MSCI Emerging Markets Index (MXEF) over each of these periods except 10 years, reflecting a pronounced peak in the VN Index in 2007. As at end-October 2017, the VN Index was 28.5% below its 2007 peak, while MXEF was 16.3% below its 2007 peak.

Exhibit 5: Investment company performance to 31 October 2017 in sterling terms



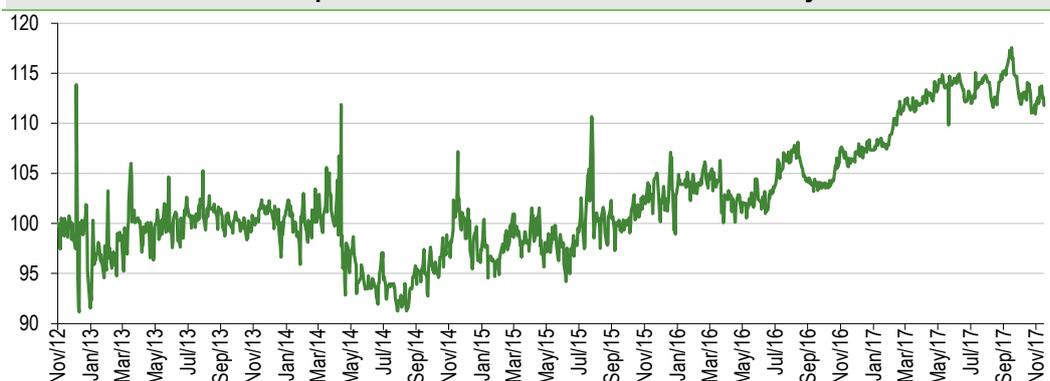
Source: Thomson Datastream, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

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	(2.6)	(6.6)	(1.2)	5.7	15.9	18.9	2.1
NAV relative to Vietnam VN index	(1.4)	(2.6)	(1.8)	3.7	13.7	11.4	18.9
Price relative to Vietnam VN30 index	(2.5)	(7.2)	(3.0)	2.0	28.3	43.8	N/A
NAV relative to Vietnam VN30 index	(1.2)	(3.1)	(3.6)	0.0	25.9	34.8	N/A
Price relative to MSCI Emerging Markets	10.6	10.7	14.1	17.1	66.9	158.8	(15.3)
NAV relative to MSCI Emerging Markets	12.0	15.5	13.4	14.8	63.8	142.4	(1.4)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-October 2017. Geometric calculation.

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



Source: Thomson Datastream, Edison Investment Research

Discount: Slightly below its three-year average

VEIL currently trades on a discount to NAV of 15.5%, below the 16.8% three-year average and well within the range of 7.8% and 24.2% over the period. The company has the ability to manage an

imbalance in the supply of and demand for its shares through repurchases. In February 2017, VEIL repurchased 0.8m shares, representing 0.4% of issued shares outstanding.

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



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

VEIL has two classes of capital in issue: ordinary shares and non-redeemable management shares. Dragon Capital owns all 1,000 management shares, which carry one vote each but are not entitled to dividends. In a wind-up situation, holders of management shares are entitled to a return of paid-up nominal capital only after the return of nominal paid-up capital to the ordinary shareholders. Management shares also have the right to appoint two members to the board. The company has authority (renewable annually) to repurchase up to 14.99% of its issued share capital.

VEIL is permitted to borrow up to 20% of NAV (at the time of borrowing) for the purposes of capital flexibility, including for investment purposes. The board has approved borrowing of up to US\$100m and, as at end-August 2017, the company has debt of \$38m. VEIL is putting in place credit facilities of up to US\$90m to allow it the flexibility to participate in upcoming equity offerings. As at end-October 2017, the company's gross gearing was 2.9%, and net cash was 3.2%

VEIL's investment manager, Enterprise Investment Management, a subsidiary of Dragon Capital, is paid a management fee of 2.0% pa on assets up to US\$1.25bn, reducing to 1.75% pa on net assets between US\$1.25bn and US\$1.5bn, and further reducing to 1.5% on net assets over US\$1.5bn. No performance fees are payable and in FY16, the ongoing charge was 2.16%.

Dividend policy and record

No dividends have been paid to date by VEIL, reflecting its investment objective to achieve medium- to long-term capital appreciation of its assets.

Peer group comparison

Exhibit 9 shows the members of the AIC Country Specialists – Asia Pacific sector excluding Kubera Cross-Border, which principally makes private equity investments. This peer group covers many different individual countries, thus making comparisons less meaningful as performance is heavily influenced by individual markets, not just manager performance. Among the subgroup of Vietnam funds, VEIL is the largest and has the strongest NAV total return performance for one, three and five years. Its 10-year NAV total return performance is weaker than the other two Vietnam funds, reflecting a very pronounced pre-crisis stock market peak in 2007, providing a very high base for

comparison (the VN Index has yet to return to its peak). VietNam Holding launched in 2006 and was not fully invested during this time, while VinaCapital Opportunities Fund held private equity investments, which are generally less affected by market volatility.

Exhibit 9: Country Specialists – Asia Pacific peer group as at 15 December 2017*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Vietnam Enterprise Investments	939.9	41.2	129.1	266.0	77.1	(14.8)	2.16	No	100	0.0
Aberdeen New India	270.2	21.4	43.8	100.2	183.4	(12.5)	1.30	No	100	0.0
Aberdeen New Thai	105.2	18.1	26.5	54.4	328.9	(12.7)	1.45	No	101	1.9
Barramundi	44.6	5.5	33.3	30.5	66.2	(23.3)	1.99	Yes	100	0.0
Fidelity China Special Situations	1,262.2	26.6	82.6	241.5		(12.0)	1.16	Yes	127	1.1
India Capital Growth	121.2	35.1	77.9	136.4	(7.3)	(13.4)	1.79	No	100	0.0
JPMorgan Chinese	221.0	42.4	72.8	128.5	142.5	(11.1)	1.38	No	110	0.5
JPMorgan Indian	787.6	22.9	43.9	93.3	73.2	(12.7)	1.22	No	106	0.0
VietNam Holding	138.1	10.8	66.6	206.3	103.3	(13.1)	2.85	Yes	100	0.0
VinaCapital Vietnam Opportunity Fund	627.8	18.0	86.4	155.2	129.4	(19.7)	4.44	Yes	100	2.3
Weiss Korea Opportunity	150.6	33.1	59.0			(5.5)	1.80	No	100	1.9
Peer group average	424.4	25.0	65.6	141.2	121.9	(13.7)	1.96		104	0.7
Rank in peer group	2	2	1	1	6	9	3		5	6
Vietnam subgroup average	568.6	18.3	94.1	209.2	103.3	(15.9)	3.15		100	0.8
Rank in subgroup	1	1	1	1	3	2	3		1	2

Source: Morningstar, Bloomberg, Edison Investment Research. Note: *Performance data to end-November 2017. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

Following the resignation of Marc Faber in October 2017, the board consists of four independent directors and one non-independent director, Dominic Scriven. Chairman Wolfgang Bertelsmeier (appointed director July 2009, chairman November 2013) was at the World Bank for over 30 years, including 17 years at the IFC (International Finance Corporation), serving as Resident Representative for Vietnam between 1997 and 2000. Senior independent director Stanley Chou (appointed January 2016) is also managing director of investment advisory companies Lufin Asia Pacific and SCA International. Derek Loh (appointed March 2011) is a director with TSMP Law Corporation Singapore. He also sits on the boards of various Singapore-listed companies including Vibrant Group, where he chairs the Remuneration and Nomination Committees. Gordon Lawson (appointed July 2014) is a director of Ukrainian Opportunities Fund, Turiya Funds and Blakeney. Dominic Scriven (appointed May 1995) is the founder of Dragon Capital and a director of several Vietnamese public companies. He has over 30 years' investment experience, concentrated in Vietnam.

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