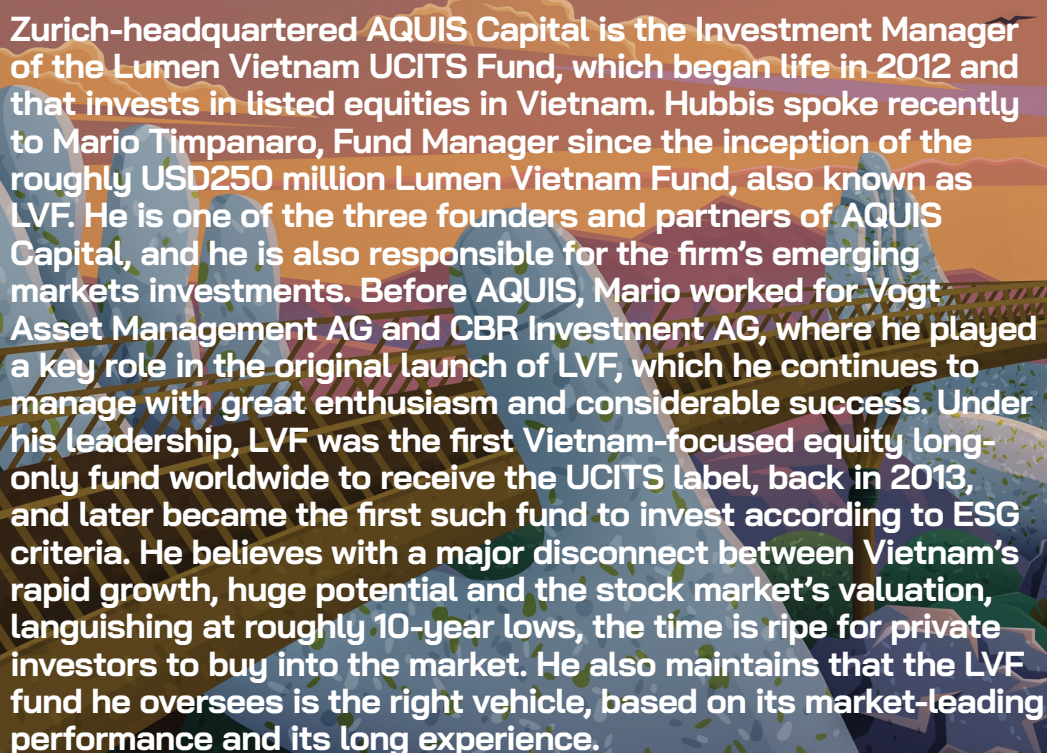


# The Attractions of Vietnam's Equity Market and why the Country should be on Private Client Radars



Zurich-headquartered AQUIS Capital is the Investment Manager of the Lumen Vietnam UCITS Fund, which began life in 2012 and that invests in listed equities in Vietnam. Hubbis spoke recently to Mario Timpanaro, Fund Manager since the inception of the roughly USD250 million Lumen Vietnam Fund, also known as LVF. He is one of the three founders and partners of AQUIS Capital, and he is also responsible for the firm's emerging markets investments. Before AQUIS, Mario worked for Vogt Asset Management AG and CBR Investment AG, where he played a key role in the original launch of LVF, which he continues to manage with great enthusiasm and considerable success. Under his leadership, LVF was the first Vietnam-focused equity long-only fund worldwide to receive the UCITS label, back in 2013, and later became the first such fund to invest according to ESG criteria. He believes with a major disconnect between Vietnam's rapid growth, huge potential and the stock market's valuation, languishing at roughly 10-year lows, the time is ripe for private investors to buy into the market. He also maintains that the LVF fund he oversees is the right vehicle, based on its market-leading performance and its long experience.

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**MARIO TIMPANARO**  
AQUIS Capital

### Wind in Vietnam's sails

Mario says that Vietnam is a country on a formidable growth path, and that, albeit from a modest base, Vietnam is becoming an increasingly important country for inward portfolio investment by both leading asset management entities and also private investors. But accessing the right investments and the right research and information requires specialists, hence the importance of actively managed funds such as the LVF, which fulfil some of this rapidly rising investor demand.

Vietnam is home to approaching 100 million people – the 14th largest population in the world – and the people are young, relatively well-educated, and eager to work and succeed. “These highly appealing demographics are proving a magnet for the growing number of global and international companies moving to Vietnam in recent years and bringing with them both large amounts of FDI and also technology and expertise,” Mario explains.

With low labour costs (far lower today than those in China), improving infrastructure, and dynamic development policies, Vietnam is quickly becoming the new workshop for the world as a manufacturing hub for goods ranging from furniture and footwear to home appliances and mobile phones.

### The FDI boom

This inward shift of manufacturing accelerated during the global pandemic, as international companies have sought to further diversify their production beyond China. But the trend is constant, and Vietnam today stands as a truly compelling production centre as costs and

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labour availability present such a remarkably appealing story for regional and global corporate decision-makers.

The country's middle class of approaching 35 million people is expanding thanks to new work opportunities and rapid urbanisation, creating ever-growing demand across all consumer sectors: from property and construction materials to technology to consumer goods and services. As the economy grows and diversifies apace, so too the capital markets are expanding, and the range of investment opportunities is growing all the time.

### Strong leadership and an evolving economy

To briefly summarise the key appeals that AQUIS Capital's team sees so clearly, the country has robust political stability with broad support for the one-party system. Education is good and improving with a literacy rate of 95% plus.

Technology adoption is high and rising. The internet economy is growing at a remarkable pace and as a very young demographic, most of the country is digital natives. Renewable energy is sharply on the rise, and key export sectors include Smartphones & Accessories, Textiles & Footwear, Computers & Electrical Products and Machinery & Equipment.

Mario reports that LVF has grown to a roughly USD 250 million fund and has achieved an annual return of 8.75% since its launch in 2012. The management team takes a bottom-up approach in selecting and deeply researching listed companies in Vietnam, aiming to achieve consistent long-term capital appreciation.

The core of the portfolio consists of small to medium size listed companies that demonstrate attractive growth characteristics and potential, as well as selected tactical allocation to selected undervalued large-cap stocks.

The fund is very proud of its strict ESG Investment criteria and only invests in firms that follow a strict rule in harmony with its core values. And the fund is well positioned to capture Vietnam's future transition from a frontier to an emerging market, which will very probably result in more and more institutional money focusing on the country.

Mario points to the great potential ahead. He says Vietnam achieved 30 years of annual average 6.8% GDP growth, but the stock market itself has been rather underperforming its potential for some years, and is ripe for a re-rating.

"Vietnam's market is good for diversification, as it has a very low correlation to the major stock markets worldwide," he reports. "Moreover, the FDI story continues robustly. Due to the supply chain disruption, more and more companies are relocating their production place to Vietnam. Not only from China but also from other surrounding countries in Southeast Asia.

He anticipates Vietnam's GDP growth from 2020 to 2030 will also comfortably average close to 7% annually, and that growth was 8% in 2022. Yet the market price-earnings multiple is trading at 12.6 x time forward earnings and an EPS of over 40% for 2023., which he says is a historical low relative to the past ten years. This is two standard deviations below the eight-year average of 2014.

"Not only should the market re-rate, but the momentum of Vietnam upgrading from a frontier to an emerging market in the future will bring more institutional money from

### Mario Timpanaro, Fund Manager - Lumen Vietnam Fund, AQUIS Capital

Mario joined AQUIS Capital as one of three co-founders in July 2020 and is responsible for Emerging Markets, including Vietnam. Before AQUIS, Mario also worked as a portfolio manager at Würth Finance, with Vogt Asset Management AG and also CBR Investment AG, where he played a key role in the launch of the Lumen Vietnam Fund, which he continues to manage with considerable success as the responsible portfolio manager. Under his leadership, the Lumen Vietnam Fund was the first Vietnam-focused equity long-only fund worldwide to receive the UCITS label, back in 2013, and today has an AUM of around USD250 million.

Mario studied at the KV Zurich Business School and then attended the famous INSEAD in Fontainebleau (Paris). He started his career in 1987 as a market maker for Japanese convertible bonds and warrants for Bank Julius Baer in Zurich, and in 1992 he was appointed by the Board of Directors of Bank Julius Baer to set up the derivatives department. He is an educated and passionate chartist, as this helps him recognise the important trends in the international financial markets from a very early stage.

overseas, and more impetus generally," he explains.

### Ready for the leap to EM status...

Mario says when MSCI does eventually shift Vietnam to emerging market status. This is a country of approaching 100 million people, with a stock market valued at USD 230 billion currently, and with huge potential, as the capital markets are young and the economy is expanding and diversifying apace," he says.

He tackles the question of active or passive approaches to gaining exposure to the country, arguing that the LVF had over the last 10 years outperformed the biggest Vietnam ETF by around 180%. "I can say that anyone with just a bit of knowledge of the emerging

markets and Vietnam should never invest through passive instruments. Simply put, they do not create value."

### A volatile market

Mario elaborates on these views, noting that the average volume in the market in the last two years was the equivalent of USD 1,3 billion a day, but is currently around USD 500 million daily. "When we launched the fund back in 2012 the daily volume was only around USD200 million, so actually it has come a long way," he says. "But the key point here is that this is a tricky market to invest in, you need the type of expertise we offer, and you also need the very rigorous rules, especially around risk management, which allows us to retain our UCITS status."

## ESG-driven screening

He also explains that ESG has been a key component of their investment approach since 2013, at which time few people knew much at all about it. “The reality is that from the outset, and still today, there is a lot of greenwashing around the world, but we have our ESG protocols clearly articulated in our LVF prospectus, and we must follow those rules precisely,” he states. The fund already complies with ART. 8 of the EU SFDR regulation, which makes it unique.

He says the ESG perspective also helps them as managers sidestep problem companies.

“There have been some notable corporate governance problems, but we monitor activity constantly and armed with our experience and analytical approach, we have managed to avoid those issues,” Mario elucidates. “We maintain a list of stocks that we consider not to be investable due to these corporate governance issues. This is especially important as domestic investors are heavily of the trading mentality and drive a lot of volatility in this market. Our expertise is to navigate all that create alpha for the fund amidst all the noise around the market.”

## A market leader

He reports that, as a result of their disciplined approach, they are the second largest actively managed Vietnam equity fund, and the number one performing Vietnam fund worldwide over the past 10 years. He notes that in what was a very challenging 2022 for global markets and sentiment, LVF managed to increase AUM by USD79 million. “Ours is the second largest dedicated fund in this

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investment universe and also the best performing.”

## Experience counts

Mario points to the combination of their expertise and perspective from Europe and the quality of the AQUIS research of the team on the ground. “Right now, we see that Vietnam is again becoming more popular with foreign portfolio investors, as they increasingly recognise the disparity between valuations and the country’s economy, its young and well-educated, hardworking demographics, with the political stability and strong leadership from on top.”

Mario focuses briefly on key themes and sectors. “In very broad-brush terms, we like the financial sector, consumer stocks (retail business and insurance companies), industrial parks and also selected companies from the manufacturing sector, but we adjust the portfolio according to key events and trends and valuations,” he reports. “In the first half of 2023, China’s reopening is triggering even more FDI into Vietnam because of the problem of the re-emergence of trade chain disruptions. Furthermore, we believe that the tourism sector should see a strong recovery this year and with it also increased consumer demand. And later in

2023, we will very probably adjust our holdings to reflect a wider uptick in the macroeconomy. Nevertheless, it is valuations that ultimately determine what we hold.”

Mario closes the conversation by explaining more about AQUIS Capital, which he says was created almost three years ago and is owned by three partners – himself, Mike Meier and Son Nguyen – all part of the investment management team and all licensed in Switzerland under FINMA. He adds that AQUIS took direct control of LVF in 2020.

He reports that they currently manage 3 funds with a total AUM of USD330 million manage the LVF, a fund of hedge funds, and the team comprises 9 people in Zurich and 11 on the ground in Vietnam.

## Timing is everything...

Mario closes the discussion by commenting again on why Vietnam should be a core element of any HNW and UHNW equity portfolio. The historically low valuation and the very strong macro figures speak for themselves. The upgrade from Frontier Market to Emerging Market will attract more investors to the Vietnamese stock market. We see this in a time horizon of the next 2 years. And last but not least, for diversification in a broadly diversified portfolio. ■