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Vietnam and Asia's Private Clients – Aligning Growth, Value & Opportunity

Minh Luong is Head of Research at VietNam Holding Asset Management and along with their team of roughly 12 specialists today, help drive the fundamentals behind the allocation strategy for the Lumen Vietnam UCITS Fund (LVF), which is ultimately managed by the Swiss-based AQUIS Capital. He offered delegates a detailed and engaging presentation at the recent Hubbis Investment Forum in Singapore on November 1, providing some insights into the LVF fund and detailing why he is such a strong believer in Vietnam. He explained that the country has been benefitting from the China Plus One Strategy, and that Vietnam is an excellent diversification for private portfolios, and outlined the multitude of advantages in the market's favour.

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Zurich-headquartered AQUIS Capital is the Investment Manager of LVF, which began life in 2012 and has invested in listed equities in Vietnam. Minh and his team provide the on-the-ground intelligence and data that help AQUIS in its allocations.

The allocation focuses on the small- and mid-cap stocks with tactical allocations into the large-cap ones to take advantage of the market momentums, he explained.

Armed with a detailed slide show, Minh offered plenty of visualisation for delegates, reminding anyone who is interested in visiting for due diligence that with 1000 kilometres of coastline, the country offers some excellent relaxation as well.

He noted that Vietnam is home to approaching 100 million people – the 14th largest population in the world – and the people are young, with an average age of 33, and they are 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 over the last 15 years, Vietnam has grown from the lowest position to become the second largest exporter within ASEAN, all supported by friendly government policies toward FDI's, young labour force, competitive cost, and proximity to China.

The country has other advantages such as high levels of oil and gas reserves spanning an estimated 62 years ahead, at least.

Meanwhile, Minh reported that inflation is currently under control in Vietnam, tracking around 3.2% last year, with a government target of 4.5% in 2023, and with numbers currently well below that level. GDP per capita is around USD4200 per capita and increasing with the nation's economic growth.

He briefly articulated the evolution from a largely agrarian country

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Today, LVF is a roughly USD 350 million strategy and is considered the first Vietnam-focused equity long-only fund worldwide to receive the UCITS label, back in 2013, later also becoming the first such fund to invest according to ESG criteria. Minh told delegates that LVF has invested only in Vietnam. The fund is actively managed, long-only, and fully ESG compliant.

moving to Vietnam in recent years and bringing with them large amounts of FDI – he cited numbers of between USD20 to 25 billion annually – as well as technology and expertise.

He said the China Plus One strategy is another major driver for inward investment interest - Vietnam is actually the largest beneficiary of this trade and supply shift, and

to a modernising and diversifying economy that, for example, counts Samsung as a major producer, making some two-thirds of the group's tablets or phones with its approximately 200,000 employees in the country. Nike, Adidas and others make sporting goods, clothes and shoes. And the economy is continuously moving up the value chain.

More broadly, Minh outlined key themes such as industrialisation, rising domestic consumption, strong demographics, urbanisation, the expansion of education, healthcare and leisure, the growth of the financial sector, and so forth.

And remember, he said, that Vietnam is well managed fiscally, with a quite stable foreign reserve and a stable Vietnam Dong as well. "If you look at last year, we only depreciated 3.5% compared with the USD, and this year the depreciation will be relatively low at 2% or less," he reported.

"Moreover, debt to GDP at is only 45%, far below China's 78%, Europe's 90%, or the 125% level in the US. The credit rating is one notch below investment grade today. And that all means we can provide stimulus if required – the government this year is accelerating their public investment by some 30%."

And with growth projected to be 6.0% this year, that is well in excess of the average of 4.3% growth predicted for ASEAN-6 countries as a whole.

Minh turned to the specifics of the LVF strategy. The mission is to achieve long-term capital appreciation by investing in listed companies in Vietnam. The investment selection process screens for under-valued companies with high growth potential.

The core of the portfolio consists of small- to medium-sized listed companies with attractive growth drivers and tactical allocation to undervalued large caps.

"We invest in improving macroeconomic or demographic trends, industries and companies that are overlooked and undervalued, and we focus our energies on small- and mid-caps with tactical allocations into large-caps," Minh reported.

The fund is actively managed and with ESG and sustainable factors integrated throughout. The investment style is fundamental and also opportunistic. It launched first in March 2012 as the first UCITS Fund worldwide focusing exclusively on Vietnam. The AUM by late September stood at more than USD350 million.

He reported that since inception in 2012, the fund had returned 208% through August 2023, and in the year to August this year had produced roughly 24% returns. "On a long-term basis, LVF has consistently outperformed investable ETFs by a wide margin, and we are the best performing UCITS fund in the last three years," he stated. "We also outperform the key indices and comparables by some margin."

He cited three key drivers. The first is the attractive valuation relative to other Asian markets, with Vietnam trading at around 11.7 times predicted 2023 profits, and countries such as Indonesia at 13.8 times and Thailand out in front at 16 times.

The second is the macro-opportunity, some of which he had already outlined, but that also includes the government's 10% GDP stimulus package for the next five years, which could add a further 1% GDP growth per annum. "And this at a time when other ASEAN countries are reducing their economic stimulus," he added.

Additionally, he pointed to the China PlusOne Strategy, with Vietnam as the largest beneficiary of trade and supply shifts. Over the last 15 years, he noted that Vietnam has grown from the lowest position to become the second largest exporter within ASEAN. This is supported by friendly government policies toward FDI, the young labour force, competitive costs, and the proximity to China.

And he reported that a third opportunity driver is the upgrade of Vietnam to the emerging markets status. "While Vietnam remains a Frontier Market, it is heading steadily towards EM classification, and we expect that by 2025. We are already at a market capitalisation of about USD250 billion, bigger than some other emerging markets such as Turkey or Poland, and the market liquidity is improving all the time." ■

For further reading on the Lumen Vietnam Fund see this 2023 Hubbis article: The Attractions of Vietnam's Equity Market and why the Country should be on Private Client Radars