Company name Vietnam Enterprise
Headline Notice of Annual General Meeting

RNS Number : 0377O
Vietnam Enterprise Investments
22 June 2010

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Vietnam Enterprise Investments Limited (the "Company")

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From the Board of the Company

Since the issue of the Circular for the upcoming AGM of the Company, to be held on 12 July 2010, a number of questions have been raised about the proposed resolution to wind up the Company, which has been included in this year's AGM in accordance with the Company's Articles of Association. The proposed resolution has also received prime time television coverage in Vietnam, as a result of local concerns about the consequences of the potential winding up of one of the largest closed-end Vietnam focused investment funds.

The Board has discussed these questions with the Company's Investment Manager (the 'Manager'), and deems it useful to set out in more detail to all shareholders its reasons for recommending that the wind up resolution be opposed and the Company continue to operate under its current, refined mandate. Provided shareholders vote against the wind up resolution, then, per the Articles of the Company, a wind up resolution would next be considered again at the Company's AGM in 2012.

VIETNAM INVESTMENT CASE

The Board believes that now is not the time to exit investments in Vietnam. The Vietnam Index is at around 500, close to 60% below its 2007 high. Macro-economic hurdles are being overcome; and while Vietnam has been volatile since emerging as a new market, its growth story remains intact and in the Board's opinion is one of the most compelling in Asia.

Vietnam has in recent years made significant progress in controlling trade deficits, inflation, reserve losses, currency weakness, and other macro-economic imbalances. Policy making has matured, as the Government gains more experience in running a financially open economy - something that only truly began with the WTO entry in 2007. Growth with stability, on a sustained basis, is an ever more visible prospect. Real GDP should be able to grow at 7% or more over the coming years, with solid foundations in the thriving domestic sector, and in exports that are being primed by a competitive currency and resurgent FDI. But there is also a uniquely Vietnamese factor: the drive by private banks, as a new entrepreneurial force in the economy, to mobilise the country's prodigious hidden gold and dollar wealth, which is perhaps 50% of GDP.

The stock market also has a key role to play here. Growth has been rapid, and while capitalization - at US$37bn - is still short of 40% of GDP, there are over 500 quoted companies, many new listings in the pipeline, active capital raisings, and growing daily volumes. Strategic, long-term investments remain to be made in both major entrepreneurial companies, and in restructured state-owned enterprises. Such trends will benefit from the increase in average Vietnamese incomes from ca US$1,100 towards US$2,000 per capita (source: Government estimates), over the coming five years. Such growth is not always directly mirrored in stock prices, though the Manager seeks to position the Company in holdings with growth rates two, three, or even four times the rate of annual GDP growth. Market valuations reflect PE ratios of about 12x 2010, and 10x 2011, with 20% net profit growth in both years, amongst the most attractive regionally.

Vietnam, in other words, is still at the beginning of its developmental trajectory.

CLOSED-END FUNDS

In the wake of the global crisis, some investors have come to question the role and function of closed-end funds. New-found emphasis on liquidity has meant that quasi-permanent capital structures must justify their existence and articulate a compelling value proposition.

Vietnamese securities legislation does not currently permit domestic open-ended funds. In large part this is because of a capital account that still has restrictions; and in part because the markets, for all their progress, have still not advanced to the stage where direct investment is routinely possible. Trading accounts are difficult and time-consuming to establish. Closed-end funds, therefore, continue to fulfill a role in providing the bridge between international capital, and domestic capital markets. Indeed the Company, and other funds managed by the Manager and its affiliates, are amongst the biggest owners of core Vietnamese equity holdings, including companies that have reached their foreign ownership limits.

Over the past nine months, the Board has overseen a process of consultation with the Company's shareholder base. A broad consensus of views supports a refined investment mandate of long term capital appreciation, from holdings in companies with attractive growth/value features, and good corporate governance. This means conviction holdings, infrequent trading, a capacity for unlisted companies, and no systematic targeting of the Vietnam Index. The goal, however, is to outperform the Vietnam Index on a rolling three-year basis.

The Boards of other funds managed by the Manager's affiliates have overseen similar consultation processes, with for example Vietnam Growth Fund adopting a focus on a narrower, more liquid investment universe, a closer focus on the Vietnam Index, and initially semi-annual liquidity windows.

The Board reviewed the option of open-ending, and was influenced by substantial shareholder comment that this would in fact compromise the long-term investment mandate of the Company. These views state that the Manager would be placed in a difficult position of trying to manage a large fund for both long-term performance and short-term liquidity, in markets that are thinly traded. Furthermore, by open-ending, the Company's investments would need to focus on liquid holdings, to the possible detriment of more careful stock selection; and the Company might be obliged to trade into major market movements, on the bear or the bull side, when it might be better to hold.

Because of these views and realities, there are very few open-ended funds focused on Vietnam. The only one with a presence on the ground in Vietnam has current assets of around US$12m (PXP's Vietnam Emerging Equity Fund).

Accordingly, the Board is of the view that the best interests of shareholders are better currently served by retaining the Company's closed-end structure. This will of course be regularly reviewed and adjusted as the markets evolve.

DISCOUNT MANAGEMENT

The corollary of closed end funds is that share prices do not always match net asset value ('NAV'). This is a global phenomenon and has indeed stimulated the debate referred to above over the relevance of the closed-end structure.

The Vietnamese listed closed-end funds are not immune to this, and current markets see share price discounts from around 20% to as much as 50%. These large levels reflect global conditions, the recent volatility of Vietnam itself, and the varying visibility of fund portfolios and valuations. The share price of the Company trades at a little more than 20% discount to NAV, putting it in the top quartile of comparable peer group funds (source: Jeffries Intl, LCF Rothschild). However, while the Company's comparative performance is good, the Board is conscious that there is significant work that should continue to be done on addressing the discount to NAV at which the Company's shares trade.

After discussing the merits of fund mergers, open-ending, moving to more established exchanges, tender offers and a range of further measures, the Board has decided to implement the existing provision in the Company's Articles, and to commence share buy-backs to the extent that shares are available to acquire at a price of 15% or more below NAV. These arrangements permit for up to 15% of shares bought back annually depending on market conditions and stock availability. Shares will only be acquired at prices that are accretive to the Company's NAV such that, while the total assets of the Company would decline, NAV per share should increase. The Board anticipates a narrowing of the discount of the share price to NAV insofar as implementation of these arrangements help address any imbalance between the supply of, and demand for, the Company's shares, and will review the implementation of the arrangements as to its effectiveness after six months.

The Board would like to confirm that neither the Manager, nor any of its affiliates will receive any economic benefits other than the recovery of cost from the share buy-back scheme.

PERFORMANCE

There has been some debate globally as to whether strong real GDP growth always translates into strong equity market performance. In emerging markets such as Vietnam this relationship can be particularly volatile, given limited experience of financial market mechanisms and the management of liquidity cycles. This adds considerable volatility to investment returns, a point strongly underlined by the fact that the Vietnam Index is still close to 60% below its 2007 high.

The Board believes that the Company should remain invested, with an investment focus consistent with its long-term mandate. This may mean volatility in absolute returns, though the Manager will always be measured with regards to the stated relative return goals. In this respect, the Board notes that the Manager has outperformed the Vietnam Index (dollar adjusted) in all but two of the previous nine years. The first instance of underperformance was 2004, when the Company raised a significant amount of new capital into a weak market. More significantly, in 2009, the Manager underperformed because of impairments to the value of Tiberon, and lower holdings of risk assets during the first quarter.

The Board will be keen to ensure that this relatively positive return against the Vietnam Index will be continued in the future, refreshed with a refined mandate and restated performance goals.

The Board continues to be highly supportive of the work of the Investment Manager in managing the Company and its plans for the Company going forward. The Manager is a member of one the leading investment management groups in Vietnam and is intimately familiar with the Company's investments, having assembled the Company's portfolio on its behalf.

THE VOTE

The Board is grateful for the opportunity to provide clarification, and restates its recommendation that given investment fundamentals, refined mandate and targets, and committed investment team, shareholders should VOTE AGAINST the wind up of the Company.

CONSEQUENCES OF VOTING FOR A WIND UP

The Board wishes to clarify that should shareholders vote to wind up the Company, then the Board would expect to instruct the Manager to commence the realisation of all assets immediately. Although the Company's Articles provide for the winding up to be effective 31 December 2012, the Board does not currently envision the Manager delaying the sale of the Company's assets, save other than to accommodate the somewhat unpredictable liquidity in domestic Vietnamese markets.

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Persons who have any queries about attendance at the AGM or completion and delivery of the proxy form for the AGM should contact Fabian Salvi on fabiansalvi@dragoncapital.com. Fabian Salvi can only provide information regarding the arrangements for the meeting and completion of the proxy forms and cannot provide investment advice.

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