

Sustainable Investment in Vietnam

Executive Summary

Vietnam is considered an increasingly attractive market by investors with the potential to be an early adopter of sustainability practices. In order to expand its coverage, Inrate has developed an effective approach together with Vietnam Holding to meet the increasing demand for ESG investing in emerging markets.

INTRODUCTION

This report on the sustainability profile of a Vietnamese equity portfolio was developed through an advisory and research partnership with Vietnam Holding. Inrate's sound understanding of sustainability, paired with a value driven bottom-up research process and the close relationship between VNH and its investee companies, has resulted in the present portfolio sustainability rating. It makes clear the progress of Vietnam Holding in forming a fully integrated sustainable investment fund.

In addition to this main finding, the report presents measures undertaken by enterprises and investors to address the most pressing sustainability challenges in this frontier market.

COUNTRY PROFILE

Due to the country's development trajectory, Vietnamese enterprises face manifold challenges within and across industries. Next to overarching environmental, social and governance issues, companies must take into account the risks and opportunities inherent to their business activities.



Environment

With its expanding economy, Vietnam has experienced growing consumption and the associated damaging greenhouse gas emissions. Pollution and deforestation have contributed to the increasing depletion of natural resources and deteriorating habitats. Recently, however, the government has come down harder on industrial polluters, enforcing the full extent of its punitive powers. While such measures remain modest, a growing adaptation of enterprise behavior may be within reach, given the country's stated commitment to develop more sustainably.

Social Factors

Despite income growth in recent years of near 6% annually, and poverty levels declining to a regionally favorable 2.2%, Vietnam's nominal income levels remain low. Gender equality, rural unemployment, working conditions, and child labor remain issues of concern. While the government's socio-economic development plan does address these problems, democratic and social progress must remain critical items on the country's political agenda.

Governance

As a transition economy, Vietnam struggles with the transparency issues typically observed in centrally governed systems. Much progress is needed to increase private and public information availability and reliability. Persistent corruption can burden companies with additional costs, and regulatory loopholes can cause uncertainties for foreign investors. Former state-owned enterprises and market regulators alike have begun to introduce sound management systems in an effort to overcome real and perceived barriers to investment.

PORTFOLIO PROFILE

The analyzed sample is a diversified portfolio of companies representing 88 per cent of Vietnam Holding's net asset value. The portfolio includes enterprises from 14 industries with market capitalizations ranging from less than USD 100 million to almost USD 2 billion.

Vietnam Holding attempts to capture the relevant challenges in its investment practices by accounting for sustainability factors where they have a material impact on an enterprise's bottom line. The investment team addresses these challenges directly with investee companies and encourages and monitors action steps.

Methodology

Inrate's sustainability assessment framework researches and synthesizes corporate sustainability information and appraises the degree of integration with corporate strategies, management systems, and products. The framework encompasses environmental, social, and governance (ESG) indicators in six major themes: Reporting, Business Ethics, Labor, Environment, Individual and Collective Rights, and Corporate Governance.

A corporate sustainability score is obtained by aggregating all indicator scores. The rating takes the relevant ESG issues into account by weighting indicators according to their importance within each business activity. Companies are assessed relative to the Inrate benchmark Emerging Markets Asia.

In a comprehensive joint research effort, Inrate and Vietnam Holding carried out a screening of the portfolio for exclusionary activities. No companies were found to be in breach.

Rating Results

The adjacent chart gives a general overview of the results of the Vietnam Holding portfolio ESG rating. It is important to note that the formal ESG efforts of VNH began less than a year ago, well after the rated portfolio was built. The three categories describe the sustainability performance of the assessed Vietnamese companies.

More than half of the companies within the portfolio are rated as "Proactive". Of the remaining companies, almost all are assessed as "In Progress" and are moving in the direction of the benchmark. The number of companies rated as "Passive" is low. The portfolio results show that a majority of enterprises in the portfolio are aware of ESG factors and have begun managing them within their business activities.

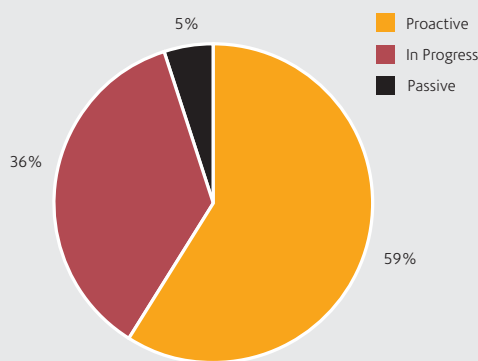
This positive portfolio result should be seen in the context of relatively low benchmarks and the already existing close relationship between the analysts and the investee companies that allowed for a good access to relevant information. However, the rating provides an excellent starting point as VNH further integrates ESG considerations in its investment processes. Vietnam Holding is committed to this effort and to its active ownership strategy, whereby enterprises are engaged and encouraged to improve their management performance in critical ESG issues.

Industry Differentiation

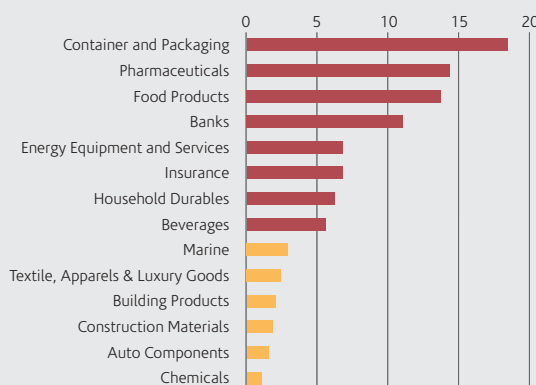
The portfolio results show large differences in the sustainability performances of different sectors. The full report identifies the areas where companies performed below the reference benchmark and gives best practice examples of select companies.



Vietnam Holding Portfolio ESG Rating



Industry ESG Rating



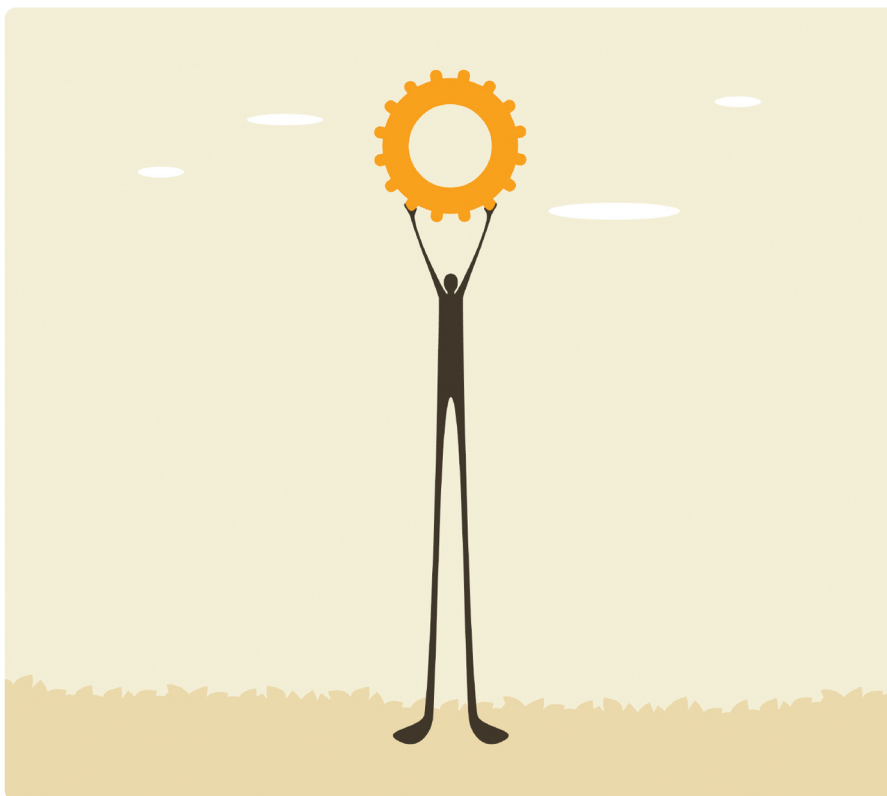
Detailed results show differentiated levels of ESG awareness within each industry. This is illustrated best by the chemicals sector, where two out of five companies are rated Proactive and three companies have In Progress or Passive ratings. In this respect Vietnam Holding's industry approach is a key factor in successfully assessing the materiality of ESG practices and investee company capabilities.

The Role of International Investors

International portfolios committed to long term, sustainable investment can improve Vietnam's growth conditions and the country's future wealth. Through increased capital inflow, Vietnam will continue its development as a successful emerging economy. With a major part of foreign direct and portfolio investment flowing into the private sector, investors are contributing to a faster pace of modernisation where more competitive industries have higher value added potential.

Conclusion

The Vietnam Holding portfolio ESG rating shows that the challenges met by the country as a whole are also faced by the analyzed subset of companies. Room for improvement remains in all analyzed areas. Despite the lack of reporting standards and a developing regulatory background, the rating showed Vietnam Holding's portfolio companies fared well and are on a promising path. The rating serves as an important milestone by which Vietnam Holding will measure the integration of sound sustainability research to its rigorous financial analysis.



About Inrate

Inrate is an independent sustainability rating agency based in Switzerland. Since 1990, we have been linking our sound understanding of sustainability with innovative research solutions for the financial markets – the main reason why we belong to one of the largest and most respected agencies in Europe.

Our mission is to be an integral part of the global financial infrastructure by providing sustainability intelligence that allows capital markets to redirect investment flows toward a more sustainable economy.

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About Vietnam Holding

Vietnam Holding is an investment company listed on the London Stock Exchange's AIM and Frankfurt Entry Standard markets. The company's investment portfolio is managed by Vietnam Holding Asset Management, an investment management firm with offices in Hanoi and Ho Chi Minh City and a subsidiary in Zurich.

Vietnam Holding is a value investor, incorporating environmental, social and corporate governance factors in its investment analysis and decision-making. VNH adheres to the general principle of diversification in respect to all its assets.

We are strongly committed to Vietnam's continued economic and social development, emphasizing good corporate governance, and the development of a skilled team of highly competent capital market professionals.

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