

The 'best' active manager in the country based in Friesland

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The best active fund managers are not in London, New York or Hong Kong. No, they are based in our own country, in the Frisian Joure that is. With a return of almost 72 percent in 2021, the TCM Vietnam High Dividend Equity Fund was the best-performing actively managed fund available in the Netherlands, according to a survey from Morningstar.

Fund manager Marco Balk (photo), who is responsible for TCM's investments in Vietnam together with managing director Wytze Riemersma, was also not aware of this news. It had already become clear to him that things were going well. The YTD return of the [TCM High Dividend Equity Fund](#) (Isin: NL0006489189) was no less than 71.95 percent on December 31.

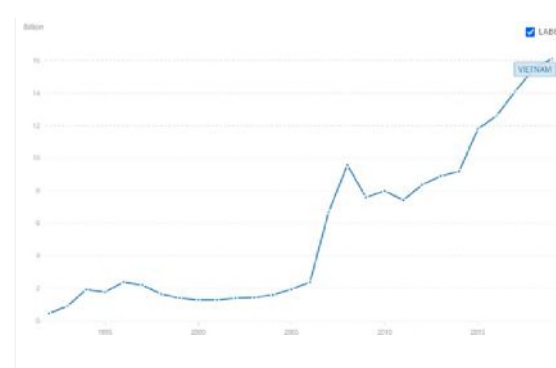
The fund has returned 420 percent since its inception in January 2009, representing an average annual return of 13.5 percent. The main tracker on the index (FTSE Vietnam Total Return Net Index) achieved an average annual return of 3.85 percent over the same period, Balk said.

Vietnam

“Of all the frontier markets, Vietnam is one of the most successful in attracting foreign investment,” Balk told Fondsnieuws.

“Many multinationals such as Samsung, Intel, Nike and Adidas are committed to setting up production in Vietnam. The country is politically stable and the population is highly educated, while wage costs are low. Even three times lower than in China.”

“In addition, the pandemic has made many companies realize that the production chain is too dependent on China to a large extent. Partly for this reason, many companies are now moving to Vietnam', says Balk.



Foreign direct investment, net inflows in dollars - Source: Worldbank data

The country's foreign exchange reserves have increased eightfold over the past decade to \$100 billion. Exports rose by 19 percent in 2021, resulting in a trade surplus of \$4 billion. "Due to the large surplus and foreign exchange reserves, the Vietnamese dong is stable," said Balk.

"We are not concerned about currency risk"

Inflation in Vietnam fell to 1.81 percent in December 2021, from 2.10 percent in the previous month, the highest level since August.

“It is expected to increase slightly, reaching about 3 to 3.5 percent this year. All positions we have are denominated in Vietnamese dong and we are not worried about any currency risk,” says the fund manager.

Balk is also not afraid of interest rate hikes in the developed economies - which usually lead to outflows of capital from emerging markets. As far as he is concerned, the country's trade balance is so positive that rising interest rates in the US, for example, will not derail the economy. In addition, rising interest rates are most felt in markets dominated by growth stocks, especially the US. Our portfolio consists mainly of Vietnamese small and mid-cap stocks with a strong “value” component.”

The Investment strategy

The Frisian TCM is pursuing a high-dividend strategy for Vietnam. “We look at return on equity and at dividend discipline. In addition, the debts should not be too high, because that could lead to the dividend being tampered with.’ Earnings per share is also an important parameter for Balk and his team.

The bulk of the portfolio's 39 individual holdings are small and mid-caps, with only 4 to 5 percent being large cap stocks. According to Balk, the companies in which TCM invests are not yet on the radar of mainstream investors.

The active share relative to the main index is therefore above 90 percent.



TCM High Dividend Equities Fund: performance

At 6.36 percent, FPT Corp, one of Vietnam's top technology companies, is the largest holding within the fund. “In 2021, that share rose 100 percent,” says Balk, but unfortunately there are so-called “foreign ownership limits” on many shares in Vietnam. When we sold part of our position in FTP Corp last year, we therefore received a 7 percent premium on top of the company's share price.”

Tng Investment And Trading JSC, the largest textile producer listed on the Hanoi stock exchange, is second in the portfolio with 4.58 percent. As the market leader, the company benefits from the free trade agreement with the European Union (EVFTA), signed in 2019, which will bring import tariffs to zero.

Experts believe that textile exports from Vietnam to the EU could increase by more than 60% in the next three years. Last year the share rose by 150 percent, but the stock still trades at only 7 times earnings,” said Balk.

Investment limits

The FTSE country classification has established criteria that must be met in order to develop from a frontier market to a “secondary emerging market”.

“Vietnam meets seven of those criteria, but the foreign ownership limit must be removed if the country wants to be labeled as an emerging market.

Also, the information is not yet transparent enough. English information about stock market news, prices and companies is often not available," says Balk.

If those restrictions are lifted, the potential of the Vietnamese market will get a huge boost, according to the fund manager.

TCM Investment Funds

Balk and colleague Riemersma are responsible for the management of a total of three equity funds: TCM Global Frontier High Dividend Equity, TCM Vietnam High Dividend Equity and TCM Africa High Dividend Equity. All funds can be traded daily on Euronext Amsterdam and are supervised by the Netherlands Authority for the Financial Markets (AFM).

The interview was originally published by Fondsnieuws in Dutch in January 2022 and has been translated by TCM Investment Funds for information purposes.

<https://www.tcminvestmentfunds.nl/mediadepot/43087da978dd/Fondsnieuws2022-01.pdf>