

I. THE BIRTH OF INVESTMENT FUNDS IN VIETNAM

After the Open Door Policy was adopted, and especially after the Foreign Investment Law was promulgated in February 1998, many foreign-invested companies came into existence in Vietnam. In this the wave of investments, during the period before 1993 when information about the formation of the Vietnamese Stock Exchange, the following investment funds were established:

- October 1991: The Vietnam Fund Limited
- June 1992: The Vietnam Investment Fund (Singapore) Ltd. (Vietnam Keppel Fund)
- August 1993: Beta Vietnam Fund
- July 1994: The Vietnam Frontier Fund
- July 1994: The Vietnam Enterprise Investment Fund
- September 1994: Templeton Vietnam Opportunities Fund
- October 1994: The Lazard Vietnam Fund

What types of investment funds were they? Were these of the venture capital fund type? What results did they produce? Those are the issues concerned in this study.

AN OVERVIEW ON INVESTMENT FUNDS IN VIETNAM

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II. THE STATUS OF THE FUNDS OPERATION BEFORE THE END OF 1994

According to a report by Baring Securities, at the end of 1994, there were four funds in actual operation in Vietnam. All of them were listed in Dublin, Ireland, due to the US embargo on Vietnam before September 1994. After the lifting of the embargo, Templeton Vietnam Opportunities Fund was formed and listed in NYSE.

At the end of 1994, even though the funds mobilized were not fully invested, the trading price of the funds in all stock markets were added a premium. The following table shows the volume of funds mobilized, the share prices and trading prices on the stock markets in November 1994.

Table 1

Fund	Mobilized capital (USD)	Share price (USD)	Premium discount	Stock exchange	Notes
Vietnam Fund Ltd	.75 m	.15	+40.6%	Dublin	Closed end
Vietnam Keppel Fund	12.5 m.	N/A	N/A		Closed end
Beta Vietnam Fund	68.3 m.	52.5	+4.6%	Dublin	Open end
Vietnam Frontier Fund	27.5 m.	5.5	+10.2%	Dublin	Open end
Vietnam Lazard Fund	58.8 m.	N/A	N/A		Open end
Templeton VN Fund	117 m.	N/A	+ 6.1%	NYSE	Open End

Source: Reports by Baring Securities, Merrill Lynch and *Diễn đàn doanh nghiệp Việt Nam*.

At this time, the funds seemed to enjoy their glorious golden period, due to the fact that 1993 and 1994 were the high years of foreign investments in Vietnam. At the end of 1993, US\$7.3 billion worth of investment were licensed. The US embargo on Vietnam being lifted was one of the main causes for the roar of investment into Vietnam. The urge for investment into Vietnam at this point of time was at the peak; this explains why the fund shares were traded with a premium as shown in the table above.

III. THE MANAGEMENT OF THE FUNDS

To handle the operation of investments, all of the funds in Vietnam have employed their management companies. The following table shows the names of management companies with their rates of fees and rewards for good investment results.

Table 2

Fund	Management company	Management fees	% Rewards
Vietnam Fund Limited	Vietnam Fund Management Co. Ltd.	2.5% p.a./assets	None
Vietnam Investment (Singapore) Fund	KV Management Pte Limited (Singapore)	1% p.a./assets	5% capital gain
Beta Vietnam Fund	Indochina Assets Management Ltd	2.25% p.a./assets	95000 options
Vietnam Frontier Fund	Frontier Fund Management	2% p.a./assets	20% of >15% return
Vietnam Enterprise Investment Fund	Dragon Capital Limited	2% p.a./NAV	20% of NAV exceeded
Templeton Vietnam Opportunities Fund	Templeton Investment Management Pte. Ltd.	1.5% p.a./NAV	None

The above table shows variable fees from 1% to 2.5% of either NAV or assets under management of each fund. Some of the funds offered different type of awards to the managers based on initial agreement. For example, some funds might have rewarded a percentage of profit exceeded, some given rewards as a percentage (i.e. 20%) of capital gain, or a percentage of the actual return on the investment portfolio.

Some additional fees that the fund had to bear were custodian banks fee ranging from 0.15% to 0.25% per annum, secretarial or customers services fee from 0.1 % to 0.15% per annum.

IV. FUND TYPES AND FUND RAISING PRACTICES

The above funds varied in their types and their ways of raising funds. Some funds used the placing method to raise their funds upon formation, and then listed the fund in the stock market for public trading. Some others used the IPO style to raise their fund from stock markets such as Templeton Fund, Lazard Fund. Some others secured capital from certain financial institutions such as the Vietnam Fund, Vietnam Keppel Fund.

In general, these were called country funds because all of their capital was invested in a single nation (Vietnam is the case in point). Based on the form and investment style, they may be referred to as Investment Funds, with some common methods in use such as buying equity from unlisted companies, purchasing shares of equitized entities, or taking part in the establishment of new companies

(greenfields) as a founding shareholder.

Because there was no stock market in Vietnam in 1993-94, the investment funds had no alternative but to invest in unlisted companies. Therefore, their expertise on management of investment portfolio was restricted, and they were forced to make investment in unlisted companies at a premature time, we may also refer to them as Venture Capital Funds.

V. MODUS OPERANDI AND AREAS OF INVESTMENT

The Funds may have had different point of views and different investment philosophy when considering investment in Vietnam. Depending on their managerial skills and assessment ability, the areas of investment may differ. From a general viewpoint, up to 1998, investments from these funds were put in the following fields:

- Real estate: office building, hotel, entertainment complex
- Building materials
- Textile/garments
- Chemicals
- Farm products, food processing
- Public transport
- Mining, metal production
- Banking, finance
- Medical and education services
- Construction
- Telecom, communication

Criteria for deciding on investment in a project are: its IRR (20% at least), high potential growth rate, short pay-back period (5 years or less, except for real estate projects), because the fund's life is normally 10 years at the maximum. The project must have a good exit route, mainly a prospect of being listed in a stock market. During this time, when the Vietnamese Stock market was not in existence, the shares of some good projects were floated in Hong Kong or Singapore stock markets.

Some of the other funds had a tendency of holding a large majority in 100% FDI companies, which would enable them in making better business decisions. In some other cases, the funds only held up to 20% stake of the company, provided that this would give the representative of the fund a place in the Board of Directors.

In many cases, the fund managers tended to give support to projects fully managed by expat directors. Whether this was right or wrong remained to be studied, however, some other funds favored companies well managed by local managers which are among those in the equitized rosters, and would possibly be in the listings once the Vietnamese stock market came to life.

The process in making an investment, by selecting and by evaluating each of the projects carefully before they were presented to the Investment board of each fund was a painful preparation with utmost care, scrutiny, and professionalism.

Such investment appraisal not only involved the staffs of the funds but also employed the services of various auditors, accounting and legal firms in the due diligence process for cross-checking the reports by the fund managers and to help the Directors making the right investment decision.

This investment processing normally took six months for a decision to be made.

In reality, each of the funds had to go over 300 to 400 projects in order to select about 30 for a potential investment shortlist. From this, the managers would make further in-depth studies to report to the fund's board of directors. Finally, about 15 to 20 projects were selected for investments.

The above numbers showed the prudence, professionalism as well as the time and expenses invested in making decisions.

With the enthusiasm and forwardness to occupy the markets, some managers even went further to bypass conservative regulations of conventional finance institutions, to set their foot in the potential companies in Vietnam market. Take for example, the daring investment into private joint stock banks at the time when there were no legal writings allowing the participation by foreigners in the local banks. Many of the funds have cleverly used the convertible loan agreement to make early investment into ACB (Asia Commercial Bank), Maritime Bank, AP Bank, etc.. For such companies with good performance and potential for being listed in the stock market as REE, the Dragon Capital managers also used convertible debt contract to buy in the shares of this company. This has later proved that the managers had the right point.

VI. THE UPS AND DOWNS OF THE FUNDS IN VIETNAM

In making their investment in Vietnam, the fund managers had to encounter a lot of red tape and barriers which limited the investment. With the legal corridor for professional investment by the funds not perfected and quite restrictive, the limitation in currency conversion, exchange rate risks, together with the bureaucracy and the burden of paperwork at every level of administration and finally the shortage of exit route for any investment have contributed to decreases in prices of the funds' shares. In addition, the regional financial crisis in 1997 and other limitations influenced the investment tendency of many investors towards Vietnam market, thus pulling down the price of Vietnam funds' prices. Table 3 below will show the unit and share prices of the funds at different times in the markets:

Table 3

Fund	August 1997	June 1996	June 1995
Beta Vietnam Fund	-28.6	-21.3	-7.8
Templeton VN Fund	-11.4	-18.7	-10.1
Vietnam Frontier Fund	-27.2	-0.5	+0.5
Vietnam Enterprise Investment	+2.0	-2.2	N/A
Vietnam Fund Limited	-26.9	+11.3	+12.5

Source: Report by Bear & Sterns 1997

There are many actual details related to the increase/decrease of NAV's of the traded shares and units, totally different from the glorious golden period of the funds in 1994, however it is not authorized to disclose the details in this study.

VII. CLOSING DATES OF THE FUNDS OPERATIONS

As regulated by their Memorandum of Association, funds organized for investing in Vietnam had different redemption dates which are shown in table 4 below: (next page)

However, in reality, Templeton Vietnam Opportunities Fund has held an extraordinary general meeting to decide to transfer the remaining US\$90 million in its Fund for Southeast Asia Investment to another fund with a different name. Lazard Vietnam Fund also liquidated earlier in 1998 by selling US\$6.6 million worth of shares in Nagarjuna Sugar mill to the Indian operator. It also sold its 6.6% stake in REE to Dragon Capital Ltd. (controlling the Vietnam Enterprise Investment) for US\$1 million and brought its operation in Vietnam to an end.

The Vietnam Investment (Singapore) Fund (commonly referred to as Vietnam Keppel Fund) only made investment into whichever projects having the participation of Keppel Corporation. Up to now, only four funds remain

in Vietnam and they are narrowing operation or selling their assets to close the funds.

Table 4

Fund	Launch- ing Date	Redemp- tion date	Notes
Vietnam Fund Ltd	October 1991	Oct. 31, 2001	The fund will liquidate unless the shareholders voted to extend the fund operation.
Beta Vietnam Fund	September 1993	None	There is no redemption date.
Templeton VN Fund	September 1994	None	- id -
Vietnam Frontier Fund	July 1994	July 22 2004	Will liquidate unless the managers decide differently.
Vietnam Enterprise Investment	July 1994	Dec. 31, 2010	Will liquidate unless the managers decide differently

VIII. LESSONS DRAWN FROM THE INVESTMENTS OF THE FUNDS IN VIETNAM

What were the reasons that brought such a melancholy picture to most of the funds and what are measures to help investment funds, which were supposed to play a vital and essential role in creating the hectic trading activities in the Vietnamese stock markets as well as creating more merchandises for the market, keep operating efficiently and draw more investors into Vietnam in the future?

The following lessons might have been drawn from the operations of the funds in Vietnam:

- There are many investors willing to invest in Vietnam via the funds because the Vietnamese market is still one of the most potential with political stability and constant GDP growth, in spite of the financial crisis in the region. Vietnam is endowed with abundant natural resources for various economic sectors, a large laborious work force, and competitive labor cost in the region. The Vietnamese workers are hard working, eager to study and to advance forward. The past 12 years of foreign investment have helped train hundreds of thousands of managers and workers in different skills, and technical and managing expertise. The market of over 70 million consumers is what many multinationals want to enter and control. Many achievements in export improvement to attain higher positions among the world exporters of such products as rice, coffee, and cashew nuts have been proofs of these factors.

- After the Vietnamese - American Trade Agreement being ratified, foreign investment in Vietnam will probably increase, stocks and assets of companies in Vietnam will be more saleable because more and more financial investors are ready to move into the market.

- The drowsiness and the melancholy situation of the funds are only temporary. One of the reasons for their withdrawal is the untimely establishment the Vietnamese stock market. According to many experts in Vietnamese economy, the best time for the birth of the Vietnamese stock market was 1995.

- Other limitation of the funds' investment in Vietnam:

- (1) The management of the funds in Vietnam required an ability to adjust to local conditions, if the managers were able to perform this, the investments would have been more efficient. Success of the Dragon Capital Management

Limited is a good example.

- (2) Funds managers who paid full attention to local enterprises well managed by Vietnamese managers, such as ACB, REE and some others, all harvested their investment efficiency after the Vietnamese stock market came into existence.

- (3) In many cases, investments in companies run by foreign managers weren't productive because of high overheads (this was the case of some loss-making joint ventures).

- (4) In some cases, the recruitment of managers was based on personal relations in Vietnam with the result that some managers did not meet the standard required.

- (5) In some other cases, the operation managers were provided by foreign headhunters, so they had no experience of doing business in Vietnam and dealing with local workers.

- (6) Many fund managers were not authorized to intervene into the operation of companies they invested in, and they could only give remarks and proposals. This made it hard to prevent or deal with wrong decisions, and all changes in the management always lead to bad effects on the business performance.

- (7) Reports and information from abroad hinted that there have been churning practices that made high mark-up on investment costs with a view to increasing the broker's commissions.

- (8) In some cases, convertible debt agreements with potential companies were not met when due, in fact, some guaranteeing banks also defaulted and refused to settle payments.

- (9) Some foreign-invested projects or direct investment in local companies will meet with exchange risk because foreign investments were converted into the VND according to the fixed exchange rate at the time of investing, and they became unprofitable when investors converted their profits (in the VND) into foreign exchange to send to their home countries although the projects they invested in were profitable. This risk has discouraged many foreign investors in Vietnam, especially the funds.

- (10) A number of profitable businesses are state-owned ones and they are not privatized, even partially. This led to a shortage of attractive commodities in the Vietnamese stock market, where many foreign investors and fund managers look for business opportunities. Let us take for example the recent issue of US\$15 billion for China Telecom on the NYSE. This gives us an idea of the differences between Chinese policies on foreign investment and ours (It's worth noting that foreign investors are under no obligation to help develop the Vietnamese economy by investing in projects with high degrees of risk and no prospects when there is no profitable ones.)

With the above lessons drawn from the past, it is certain that we can join hand in working out measures to create a favorable investment environment and suitable conditions for investment funds to participate into the new development phase of the economy.

In addition, we should think of solutions and conditions for the formation of investment funds with the participation of Vietnamese investors, especially when some 400 companies are to be privatized and the Vietnamese stock market is provided with more promising commodities, thus igniting the sparks of the internal strength of the public ■