

Operations of Investment Companies in Vietnam

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1. An overview of investment and fund management companies in Vietnam

Foreign investment companies came into operation in Vietnam in the early 1990s and up till now there are some seven companies with a total capital of some US\$400 million. Their operations, however, are not promising with the result that most of them have to limit their operations or go out of business. In the years 1998 – 2002, no investment company came to Vietnam. From 2004 on, the sector showed signs of recovery when 13 companies capitalized at some US\$908 million came into being.

a. Situation of some investment companies

- Vietnam Enterprise Investment Fund (VEIL): Capital of this company comes from foreign investors, mainly in the UK, the U.S. and Canada and some loan from the IFC under the World Bank. VEIL is an closed-end fund and listed on the Irish stock exchange. Total assets of VEIL rose from US\$16 million after its establishment in 1996 to some US\$1 billion at present. In 2005, VEIL was considered as the best performed fund in Vietnam when its ratio of net asset to share rose by 37.1% and price of a VEIL unit was traded at a price of 11% higher than its face value.

- Vietnam Growth Fund Ltd – VGF (under management of Dragon Capital) was established in October 2004 with a starting capital of US\$60 million. It current market price is about US\$500 million. Like VEIL, VGF is a closed-end fund and listed on

the Irish stock exchange. Growth rate gained by VGF is higher than the VEIL's one and its capital rose to some US\$100 million after only one year of operation.

- Vietnam Drangon Fund: VDF was established in early 2006 with a starting capital of US\$35 million by a group of Japanese investors. It is also a closed-end fund and listed on the Irish stock exchange. Its aims, like the ones chosen by VEIL, are finance – banking, infrastructure, post and telecommunications, tourism, mining and consumers' goods. In the first nine months of 2006, VDF made 30 investments in many listed and unlisted companies in Vietnam. Its total net asset up to the end of September 2006 reached US\$169 million increasing by 22.5% from December 2005.

- Vietnam Resource Investment Holdings Limited (VRI) was established in 2007. It is the first fund investing in companies specializing in natural resources.

- Vietnam Emerging Equity Fund (VEEF) entered into Vietnam in November 2005 with a starting capital of US\$15.9 million. It invests in listed and would-be listed companies in local stock exchanges.

- Mekong Enterprise Fund (MEF) came into being in April 2002 with a capital of US\$18.5 million. It invests in medium and small enterprises with good performance and in preparation for listing.

The MEF II was established in 2006 with a starting capital of US\$50 million and aims at companies being privatized and hav-

ing plan to list themselves in three or four years.

- Vietnam Azalea Fund Limited is an equitized fund capitalized at US\$100 million and came into operation in June 2007. In its first stage of operation, it invested in former state-owned companies, and took part in bidding for shares of unlisted companies. The average size of its investment is about US\$10 million.

- Vietnam Opportunity Fund (VOF) has some US\$100 million and has invested in some 30 projects run by leading companies of Vietnam. VOF under the management of Vinacapital came into operation in Vietnam as from September 2003.

VOF has invested some US\$100 million in Vietnam: 54 million in the OTC market; 17 million in the private sector; 11.9 million in real estate; and 16.9 million in 13 listed companies. At present, VOF has in its fund US\$86.1 million for new investments. It was ranked the best-performed fund in 2004 when its net asset rose by 25% and price of share by 38%.

- IDG Ventures Vietnam (IDGVV) is the first venture fund in technology in Vietnam. With a capital of US\$100 million, IDGVV invests in companies with potentials for development in such industries as information, telecommunications, Internet service, communication and biology. Up till now, IDGVV has put some 30 million in such companies as PeaceSoft, Isphere, VinaGame, VietnamWorks.com, etc. Most of them are developing well.

- Manulife investment fund was established in 2007 with a starting capital of VND250 billion.

- Prudential Balanced Fund (PRUBF1) was established on July 19, 2006 as a mutual fund and officially offered its share to the public on July 24, 2006 for VND500 billion through ACB, securities firm of Vietcombank and Saigon Securities Company (SSI).

- Baoviet Securities Investment Fund (BVF1), a subsidiary of Bảo Việt, is a private fund established on July 21, 2006 with a starting capital of VND500 billion from six insurance concerns.

- VF1 was established by VFM and is investing in securities on HCMC Stock Exchange.

b. Operation of some fund management companies

- Dragon Capital is considered as the first player in Vietnam financial investment market. It came to Vietnam in the early 1990s. It was established in England in 1994 and at present, manages four funds: VEIL, Vietnam Growth Fund Ltd., Vietnam Dragon Fund, and Vietnam Resource Investment Holdings Limited (VRI).

Target market of Dragon Capital includes such key industries as finance, power, transport, and warehouse, etc. These industries are big and predictable, therefore they are less risky. Local banks are also its favorite targets: one third of VEIL capital has been invested in banks. VEIL also invests in financial leasing companies, insurance companies, road transport, health care service, exploitation of natural resources and production of consumer goods.

In 2003, the first fund management company came into existence

in Vietnam, called VietFund Management (VFM). It is a joint venture of Dragon Capital Management and Sacombank with a starting capital of VND100 billion to invest in securities, banks, software production, seafood export and infrastructure.

- VinaCapital operated in Vietnam as from November 2003. It manages now four funds with a total investment in Vietnam of US\$1.8 billion, including Vietnam Opportunity Fund (VOF) and VinaLand.

On July 5, 2007, VinaCapital officially listed its Vietnam infrastructure Limited - VIL) on London Alternative Investment Market (AIM). It also promotes investments in companies specializing in technological development; enters a joint venture with Draper Fisher Jurveton (an investment venture capitalized at US\$3.5 billion) called DFJ Vinacapital with an initial capital of US\$50 million.

- Mekong Capital is a fund management company specializing in local public companies and was established in 2001 by managers with experience of investment in Vietnam and foreign markets. The company started its business called Mekong Enterprise Fund as from 2002. Up till now, it has managed three funds. Mekong Capital usually selects small private companies in many provinces as its partners.

Generally, most investment funds and fund management companies are achieving success. Funds that stayed firm after unfavorable changes in the first wave of investment such as MEF and VEIL have proven potentials for development in Vietnam by increases in their net assets, profitability and subsidiaries.

This fact has encouraged investors who are hesitant or reluctant to put their money in Vietnam.

It's easy to realize that after some failures of the first funds, other companies following them have been more cautious and they established funds of smaller sizes (MEF initial capital was only US\$16 million and its investments were limited to some hundred thousands of dollars), but the situation has been more favorable. Number of investment funds increased quickly, fund management companies with some experience in Vietnam established new funds continuously. Value of investments was also bigger as we can discuss in the next section.

c. Supply of capital to investment funds

In the early 1990s, the first wave of investment brought about abundant supply of capital but it withdrew quickly. In the second wave, success story of Mekong Capital paved the way for new comers to the Vietnam's market. The supply of capital is increasingly bigger. In mid-2007 when the total capitalized value of the whole Vietnamese stock market was about US\$20 billion (HOSE around 15.5 billion and HASTC around 4.5 billion), the capitalize value of foreign investment was about US\$5 billion - or 25% of the whole market; and financial experts estimated that indirect investment through foreign investment companies in the Vietnamese market might breach US\$2 billion. By the end of 2007, there were some 60 foreign investment funds in Vietnam with a total capital of US\$6 billion, and some 4 billion out of this total belonged to three funds: Dragon Capital, Vina Capital and Indochina Capital. These facts

show that the supply of capital from foreign sources has increased remarkably.

Typical for the abundant supply of capital were investment portfolios in 2007, especially the case in which HSBC bought 10% of B'ao Viet shares at US\$225 million. Many other funds are also pursuing big investments. Indochina Capital for example is ready to spend from US\$5 to 15 million on an investment. Thus, the supply of capital to the market from investment companies is increasing at high speed. In 2005 the capital put in investment portfolios was only expected to reach US\$300 million and in 2007 only a deal between HSBC and B'ao Viet equaled 73% of this level.

Generally, foreign investment companies aim at owning a large volume of shares of local companies. Although they pay attention to privatized companies, the private sector has recently attracted a large sum of foreign investment. According to reports from provincial services of planning and investment in the first half of 2007, 27,902 companies made registration with a total capital of VND227,520,083 million, increasing by 123.5% in terms of quantity and 344.2% in terms of capital as compared with the corresponding period of 2006. Such forms as limited and private companies were replaced by public ones, especially in HCMC and Hà Nội. This is a way to attract investment from foreign funds.

Regarding companies with investment from funds, they are mostly in the private sector. These companies are considered as very active and all foreign sectors appreciate their role in the economy. Such names as Lạc Việt, PeaceSoft, and Tân Đại

Hung, among others are typical examples and they are all in the private sector. Value of a deal conducted by investment companies has risen from hundred thousands of dollars to million dollars. Thus, the supply of capital to investment companies must be increased and their business strategies should be adjusted to increases in the average size of investments.

2. Advantages and difficulties for investment companies

a. Advantages

Fast and steady development of the Vietnamese economy and political stability are basic conditions for increases in foreign investment. That is why Vietnam

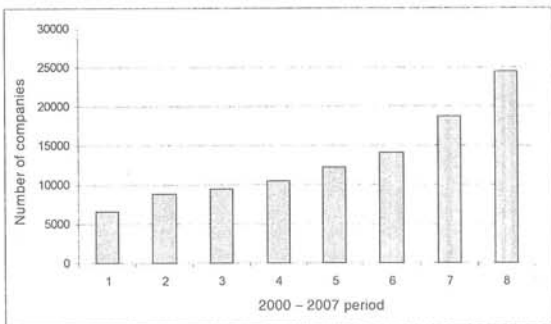
Investment Law and Securities Law provide preconditions and bases for development of companies and the whole market as well.

Privatization of state-owned companies has affected favorably the private investment and stock market. And it is a chance for investment funds. Up to the end of 2007, over 3,400 state-owned companies were privatized. In addition, fast development of the private sector also offers more opportunities to foreign investors.

b. Difficulties

Business climate and identification of opportunities are bases for the answer to growth of the investment funds. These factors involve ability to get access to,

Figure 1: Increase in number of companies established in HCMC in 2000 - 2007



Source: HCMC Service of Planning and Investment

has been considered as a promising market by foreign investing community. High growth rates allow high profitability ratio and this is what foreign investors look for in developing countries.

Right economic policies play a decisive role in the economic growth. Positive changes in the legal infrastructure created favorable conditions for investors to carry out their business strategies. Companies Law, Invest-

ment Law and Securities Law provide preconditions and bases for development of companies and the whole market as well.

After the Securities Law, establishment of investment companies became more complex. According to Decree 144/2003/ND-CP issued on November 2003 on securities and stock market, fund management companies are allowed to control funds investing in securities; these funds can be

mutual or private, and should be closed-end ones. Meanwhile, funds investing in other fields – venture capital for example – have no legal infrastructure, therefore, establishing and running such funds face some obstacles.

Investment fund is still new to Vietnam. In 2003, Vietnam had no local investment fund. Birth of such funds must come from demand of the market and it requires time to make necessary preparations. That is why it's normal for local funds to come into being three or four years late when stock exchanges got seven years old. However, the problem is the lack of experience of supervising banks and fund management companies in running effectively this institution.

Along with that problem is shortage of human resource. When stock exchanges develop, the number of securities firms and fund management companies increases, and local and foreign-invested companies start expanding their operations, the demand for trained human resource, especially for the financial sector, becomes greater. IDG Venture Vietnam and funds managed by Dragon Capital had to recruit foreign employees or Vietnamese expatriates. These sources, however, can satisfy the market demand.

Another difficulty comes from the small size of stock exchanges in spite of recent increases in their size and supporting policies adopted by the Government.

Fast increases in the capital and funds engaging in the market have help improve the supply of capital to the economy but also cause problems with distribution of capital by investment companies. When opportunities didn't

increase accordingly, competition between investment companies became inevitable. In such a situation, they have to accept unreasonable prices that are higher or lower than their preset standards. Lack of transparency of certain companies is also an obstacle to estimation of investment opportunities.

In spite of such difficulties, the Vietnamese market is still promising in the eyes of investment companies. Mekong Capital is planning to establish more funds (MEF III is expected to come into operation by late 2008), and a venture fund under Canadian BDC has studied the Vietnamese market and looked for partners by the end of 2007.

When the economic growth is dependent on capital from investment companies, it's necessary to have interventions from various parties to develop further operations of investment companies and increase the number of such funds in future. The following suggestions aim at making the best use of opportunities and advantages while dealing with difficulties to investment funds requires other solutions.

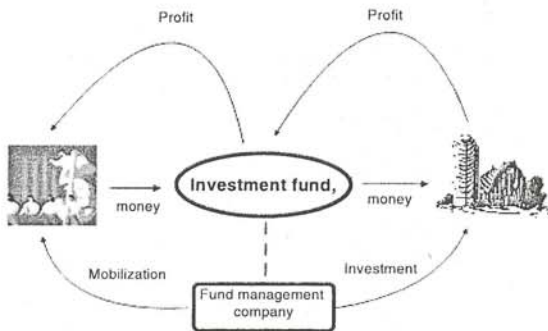
3. Measures to develop investment funds in Vietnam

Generally, operations of investment funds in the Vietnamese finance market could be expressed in the following figure.

The figure shows that performance of investment funds is affected by capital inflows and outflows. The question is how to attract more capital, get it disbursed better, ensure stable development without negative effects on the economy when foreign factor exists. The question leads to two aspects: efficiency in mechanism for operating investment funds and in techniques of operating the funds.

a. Efficiency in mechanism for operating funds

- Perfecting legal infrastructure for investment funds: Decision 45/2007/QĐ-BTC made by Ministry of Finance on June 5, 2007 provides an important legal infrastructure for operations of funds investing in securities. This fact proves that Vietnam has tried to perfect its regulations needed for controlling and coordinating operations of financial intermediaries. Diversity of forms and functions of investment funds is enormous, so Vietnam has to keep promulgating more detailed regulations on or-



ganization and control over investment funds.

At present, it's necessary to work out laws or regulations on investment funds in general – and venture funds and investing funds in other fields in particular.

Encouragement should be given to establishment of fund management joint ventures. Rep offices and branches of foreign fund management companies should be allowed in Vietnam. Forms of investment funds must be diversified because most of existing funds are private ones that enjoy simpler procedures than the mutual ones. Mutual funds can mobilize more idle money when small savers and investors have chances of engaging in the financial investment with help from professional organizations.

Reliable sources say that in early 2008 there was a plan to facilitate the establishment of foreign-owned fund management companies and this regulation will be promulgated soon. This effort can help shorten the track of integration as suggested by the WTO. This can be seen as a turning point for operation of fund management companies because it helps remove obstacles that hindered the wave of investment in the 1990s. And it also reflects the policy to attract foreign indirect investment and could be considered as a long-term and effective measure. As in the case with foreign direct investment, right policies always promote capital inflows when foreign investors realize incentives and support given to their investments.

Policies should offer equal treatment to both foreign and local investors, especially the ones on taxes, fees, and prices of factor inputs, with a view to facilitating



Photo by Huỳnh Thọ

establishment and operation of investment funds.

As for participation of foreign investors in the stock market, Decision 238/2005/QĐ-TTg made on Sep. 29, 2005 by the PM allows a larger proportion for them. This is a step forward in expanding operation of investment funds. This proportion, however, needs to be changed in order to allow foreign investors to take a more active part in local companies and ensure balance between their participation in direct and indirect investment. Number of industries that should be well under control of the State could be reduced. Proportion of shares of companies in industries open to foreign investment that foreigners are allowed to hold should be increased to the highest level, and limits on their participation into the economy can be removed accordingly.

Flows of indirect investment from foreign sources represent the best part of gross indirect investment, so exchange control policies have significant effects on flows of capital. In March 2008, Prices of gold and the dollar fluctuated widely, and then,

the domestic currency rose against the dollar and investment funds faced shortage of the domestic currency. This is a result of pressure on the exchange rate. Such fluctuations are not good for operations of investment funds and affect seriously the monetary and financial system. This situation requires a more flexible exchange control policy and increases in the national reserves of foreign exchange.

- Developing the stock market as an outlet of capital and a basis for liquidity of securities: Presence of investment funds accompanies the birth of stock market and demand from this market, therefore, the role of this market must be taken into consideration when working out the mechanism for operating the investment funds. Seven years after its establishment, the Vietnam's stock market is still very young but it has been perfected and is integrating by degrees into the regional capital market. An effectively operated stock market can serve as a source of profit for investment funds.

However, infancy, sensibility and vulnerability of the stock



market in the presence of foreign indirect investment can cause the stock market less balanced and stable. So the stock market should be developed according to international and regional standards. Development of the stock market and of the investment funds is interactive: basically, the development of the stock market produces the demand for funds while development of funds improves liquidity of the stock market. Both of them are necessary and aim at creating high-quality commodities for the market.

- **Transparent information:** This problem is mentioned a lot when speaking of the stock market but it is not realized properly. There are many causes of this situation but in my opinion, it's the long lasting habit in doing business that makes companies reluctant to disclose the corporate information. Although the system of regulations about transparent information and ways of keeping books has been perfected, the effort didn't produce intended results. Due to differences in accounting standards between Vietnam's and international

practice, most foreign investors still feel unsure when reading financial statements audited by local companies. This is really an obstacle to efforts to assess and finding partners for investment funds.

The transparent information allows investors estimate reasonably potential partners, make decision appropriate to objectives of the funds, and reduce time needed for checking that usually represent the best part of time spent on preparing an investment project.

Main measures to achieve the transparent information include:

+ **Establishing an organization of responsibility transparency in Vietnam.** Credit rating is considered as one of key factors that helps bridge the gap of information and reflects values of a company or a country in the eyes of international investing institutions – the biggest holders of capital. At present, Vietnam has no organization of this kind, therefore Vietnam has no information about ratings of companies or securities needed for foreign investors. Establishment of such organization can affect favorably all

financial institutions, and the stock market as well, in the finance market.

+ **Perfecting regulations about information disclosure and punishment of violations.**

- **Building supervising banks and fund management companies:** In the mechanism for running investment funds, there must be supervising banks and fund management companies. Infancy of investment funds in Vietnam as presented above is also an obstacle. The supervising mechanism also lacks experience because of its infancy, therefore it becomes risky to ensure fair competition and safety for the stock market. This means that great efforts should be made to develop the human resource for the financial and banking sector, and for supervising banks and fund management companies in particular. Well and consistently trained human resource will balance the labor force, improve its performance and provide a basis for smooth operations of investment funds.

When the supervising mechanism develops, investing community can get timely warnings of bad signs from the market, flows of capital and companies, so they and authorities can make necessary interventions. Moreover, authorities should work out preventive plans that could be applied when dangers make their appearance on the stock market.

b. Efficiency in techniques of operating the funds

- **More information for foreign investors:** At present, the indirect investment is much smaller than the direct investment because the size of investment funds based on small savers is small. According to estimate by Don lam – Director General of

Vina Capital – if some 100 international investing institutions capitalized at some US\$100 billion invest 1% of their capital, the inflow can bring about US\$1 billion. What prevents them to do so is lack of information from Vietnam, while efforts to promote foreign direct investment have produced satisfactory results.

This means that authorities should hold workshops on Vietnam's finance market and opportunities for indirect investment in order to help foreign investors make right decisions on their potential investments in Vietnam, thereby increasing the supply of capital to investment funds.

- More knowledge of investment funds: As presented above, some companies have reaped failures instead of success when investing in the stock market just because of their lack of knowledge of investment funds. Studying closely strengths and weaknesses of investment funds will open opportunities for cooperation between companies and funds based on mutual benefits. Success of investment funds can attract more capital from the outside. It's worth affirming that investment fund should undertake the task of disseminating such knowledge among companies through workshops or conferences.

- Human resource: Due to the infancy of the finance market, investment funds meet with difficulties in recruiting employees, which makes the demand and competition for trained laborers keener. As stated above, many funds had to recruit laborers among Vietnamese expatriates and foreign experts and these sources can't satisfy the demand

in the long run. Difficulties in recruiting laborers come from not only lack of expertise but also knowledge of corporate culture and thinking ways in Vietnam that most foreign laborers lack. This situation makes the demand for well-trained local laborers even higher. With more and more local investment funds come into being, the problem of human resource should be solved now in order to form an army of managers and officials with experience of Vietnam's realities and knowledge of international standard.

Operation of investment funds has developed well in recent years because of many favorable conditions. However, investment funds will meet with difficulties in future and they should be solved to ensure smooth development of these funds. The solutions must ensure efficiency in mechanism for operating investment funds and in techniques of operating the funds. Specific problems include knowledge of investment funds for local companies, supply of well-trained la-

bor, roles of supervising banks and fund management companies, transparent information, and mechanism for supporting and facilitating operation of investment funds. ■

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