

# Solutions to Boost up Development of Investment Funds in Vietnam's Securities Market

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When the market of finance and stocks develop to a certain level, the establishment of securities investment funds and fund management companies is a must to show the professionalism of the securities market. In the world, securities investment funds and fund management companies have taken shape for a long time and this plays an important role in the securities market evolution. As a result, the birth of investment funds in Vietnam also indicates the progress of the country's securities market in particular and the economy in general. By raising capital from investors, investment funds help the market and investors with professional management and methods of diversifying portfolio with the aim to reduce risks and transaction costs. In addition, in-

vestment funds are effective channels to attract investment capital, especially money from the people for investment in the economy.

On the other hand, the participation of investment funds and fund management companies as professional investors will contribute to promoting stable and sustainable development of the securities market, especially for embryonic markets like Vietnam's.

Fund management companies and securities investment funds are also the bridge between investors and businesses, injecting capital in enterprises and improving business performance by their contribution of financial and managerial experience in invested enterprises and thus help spur the development of Vietnam's securities market as well as the

national economy.

## 1. Kinds of Investment Funds

By forms of ownership, existing investment funds in Vietnam are divided into two kinds: foreign and domestic ones.

### *Foreign investment funds:*

In recent years, a lot of foreign investment funds have pumped capital in different industries of Vietnam. Their investment provides enterprises with not only money but also professional knowledge and skills of management, marketing and finding partners and customers and helps list them on the securities market. So far, there are about 20 foreign investment funds operational in Vietnam with an average capital of US\$58 million each. In addition to the VN Growth Fund appearing early and becoming rather familiar, the Vietnam Opportunity Fund (VOF) has injected more than US\$25 million in 30 companies and projects since September 2004. The IDG Ventures Vietnam is one of the global chains of investment funds established in Vietnam in August 2004. The IDG Ventures has invested more than US\$600 million in hundreds of companies in the world for the past ten years. The Mekong Capital Fund (MEF) is a private company specialized in buying shares from leading private enterprises in Vietnam, Cambodia and Laos with the total investment capital of US\$18.5 million, operational in Vietnam since April 2002.

Most of foreign investment funds in Vietnam are mutual funds. The Dragon Capital Fund (VGF) and the Vietnam Enterprise Investment Limited (VEIL) are capitalized at US\$75 million and US\$65 million respectively, the Indochina Land Holding has been just set up in Vietnam with a capital of US\$42 million and invested in real estate projects. In addition, there is also



VinaLand, the second investment fund in Vietnam (behind the VOF) managed by Vina Capital Company with its initial capital of US\$50 million.

These funds' investment activities in Vietnam are not the same due to their different targets. They inject capital in various industries including real estate, information technology, highly competitive manufacturing projects of all economic sectors, especially in the equitization of state-owned enterprises.

#### **Domestic investment funds:**

Domestic investment funds are small in terms of size and operational time as compared to foreign funds. The VF1 is the only public fund of Vietnam listed on the securities market with the charter capital of VND300 billion. From 2004 until now, a lot of investment management funds have been established, especially by large financial and banking groups including Prudential, Manulife, Bảo Việt, Vietnam Bank for Foreign Trade (Vietcombank), Vietnam Bank for Investment and Development ...

- The PRUBF1 under the Vietnam Prudential Investment Fund Management Company has an operational duration of 7 years and a charter capital of VND500 billion. According to evaluations of financial specialists, this fund is very suitable for investors who accept medium risks in medium- and long-term projects and wish to earn regular income and increase the value of their investment capital.

- The securities investment fund BVF1 under the Bảo Việt securities investment fund management company (BVFCM): besides managing the portfolio of Bảo Việt life insurance and Bảo Việt Vietnam with total capital of VND10,000 billion, BVFCM will manage funds including: BVF1 capitalized at VND500 billion and public funds in

2007.

- VCBF is a joint venture between Vietcombank (51% stock) and Viet Capital Holdings Pte Ltd – a Singapore-based group of investment fund management and investment consultancy. Right after being licensed, VCBF has established Vietcombank Fund 1 (VBF1) with a capital of VND200 billion

investors' capital flowing into businesses.

In addition, there is also Saigon Fund A1 (SFA1) under the Thành Việt Fund Management Company (TVMC) with a capital of more than VND30 billion. SFA1 hopes to invest 50% -60% of their fund in listed securities and the rest in securities to be listed.



(US\$12.5 million). VCBF is expected to set up another fund, VPF2 with a capital of US\$50-70 million mobilized from both foreign and domestic sources. VCBF focuses its investment in projects of oil, banking and insurance, information technology and telecommunications, food processing...

- BIDV – Vietnam Partners LLC (the US): Initially, BIDV – Vietnam Partners will set up three funds including Vietnam Investment Fund, collateral fund of Vietnam Investment Fund and Public Fund capitalized at US\$100 million each. They pump capital mainly in equitized enterprises, and projects of energy, mining and real estate...

The joining of VCBF and BIDV – Vietnam Partners in the finance market is creating an effective channel for foreign and domestic

## **2. Profitability**

Rated as the second highest growing economy behind China, Vietnam really does not betray international and local investors. Under the government's strong policy reforms, the process of equitization has been accelerated with the establishment of the securities market and the boom of the private economic sector. All of these factors have helped with fruitful results of investment funds in Vietnam.

Topping the list of highly profitable mutual funds is the MEF, with its annual growth rate of 30% in sales and profits for the two years of operation since February 2004. The MEF has injected US\$9 million in 7 enterprises. Its successful investment projects include the contribution in restructuring the Architecture and Internal Decoration

AA, an investment of US\$1.5 million in Tân Đại Hưng Plastic Company, Lạc Việt Information Technology Company and a latest investment of US\$1.3 million in Đức Thành Woodwork Company.

The second is Vietnam Opportunity Fund (VOF) – a kind of open-ended funds with a growth rate of 25%/year and its main investment projects includes finance service (20%), consumer goods - food (23%), real estate (7.2%), and education (4.2%). Ninety percent of the fund's US\$40 million has been disbursed in 30 companies such as Vinamilk, Phương Nam Bank, Kinh Đô Northern Company, Kinh Đô Southern Company. The Vina Capital has just pooled more US\$76 million for the VOF by issuing 47 million common stocks priced at US\$1.6 each. This is the fifth successful mobilization of the VOF after two years of operation. This issuance has increased the equity of VOF to US\$171 million. This figure is expected to reach US\$250 by the end of 2006.

The Vietnam Enterprise Investment Limited (VEIL) is a close-ended fund concentrated in the Vietnam market with total capital of US\$65 million, listed in Dublin (Ireland). In Vietnam, VEIL was launched with the equity of US\$16.39 million in July 1997, and then issued shares valued at US\$11.1 million in December 2002. VEIL invested more than 50% of its equity in real estate companies already or to be listed. Its investment capital has reached VND1,500 billion with an average growth rate of 10% per year for the last 4-5 years, especially 15% in 2004.

VF1 is the first domestic fund listed on the securities market. Licensed on March 24, 2005, with the charter capital of VND300 billion and unit price of VND10,300.

Until the end of August 2006, the price went up to VND22,733.

### **3. Difficulties in Investment Funds' Operations**

Favorable conditions in socio-economic development and growth in Vietnam's securities market have contributed to enhancing the performance of investment funds over the past years. However, they also face not a few challenges:

#### ***Lack of information:***

When doing business in Vietnam, investment funds have to suffer risks due to lack of information or incapability to evaluate information of the business. The investor finds it most difficult to know financial information of Vietnamese businesses because most of them use their financial statements for coping with tax agencies, but not serving tasks of management or outside investors. In the meantime, the government control system remains a lot of shortcomings and some of them are not up to international standards.

#### ***Investment funds hardly choose right companies to invest:***

The common trend of investment funds is comprehensive investment in joint stock enterprises, that is, they not only inject money but also help improve the company's human resources, managerial experience, professional skills, consumer markets. The access to these investment sources is really a lucky opportunity for their expansion. To exploit these sources effectively, the company initially has to know the fund's necessary criteria. Currently in Vietnam, a few companies are appropriate to investment funds' criteria because most of joint stock companies are of small size and cannot meet the requirements for

the fund's financial transparency or others.

#### ***Lack of financial intermediaries for consultancy:***

- Business ideas of Vietnamese young entrepreneurs are very plentiful and diverse. Nevertheless, these ideas are hardly turned into profitable projects. Even if feasible projects want to attract capital, they must ask professional advisors to persuade the investment fund. However, the amount as well as the quality of investment advising intermediaries is limited in Vietnam.

#### ***Lack of goods on the securities market in terms of number and quality:***

Six years passed but Vietnam has only nearly 50 listed enterprises. This is too low figure as compared to thousands of joint stock companies eligible for trading. This is just a reason for investment funds' challenges in their disbursement. When its scale is not expanded and there are not yet listed large corporations, Vietnam securities market hardly allures foreign investors as foreign investment funds.

On the other hand, goods on the securities market are limited in terms of quantity and quality. A lot of securities have been listed for three to four years, but their transaction amount remains modest and they are not interesting. Just because of this, these enterprises are impairing Vietnam securities market and reducing investment from large financial institutions like securities investment funds.

Ambiguity in legal regulations on the percentage of shares which foreign investors are allowed to buy.

The obstacle to foreign investors in general and investment funds in particular in Vietnam is the limit on their allowed percentage of holding shares in Vietnamese enterprises. The Investment Law for both domestic and foreign companies



recently ratified by the National Assembly will not restrict foreign investors' investment in unconditional fields. Nevertheless, many foreign investors still wonder whether this regulation on unlimited amount of foreigners' shares will be applicable to both listed and unlisted or only listed companies. This worry is reasonable because the opening of room for foreign investors (from 30% to 40%) is valid for only listed companies.

**Limited knowledge of the public about investment funds:**

At present, the people's knowledge about investment funds remains modest. Individual investors are not deeply conscious and deliberate when pouring their money in investment funds. They think these funds are golden egg-laying hens and do not understand enough risks which may occur in investment.

#### 4. Solutions

The following are our suggestions to spur development of investment funds in Vietnam securities market and solve the above-mentioned challenges.

- To find financial supports from investment funds, enterprises should increase their knowledge about funds in Internet or newspapers. In addition, to get access to these funds, Vietnamese enterprises must understand the fund's criteria and requirements to modify their business. Businesses want to pool investment capital for their project; they must (1) have transparent financial statements, even although they are in the red; (2) send their business plan which is feasible and profitable; and (3) their comparative advantages of technologies and workers' professional skills. Therefore, they will make the best use not only of partners' capital but also their relations, customers, modern technologies and management ...

- The number of investment advising intermediaries should be increased. These companies not only help the business formulate attractive projects but also find capital sources from investment funds in the region and in the world for their projects. The investment advising company will fully utilize all potentials and resources of the enterprise in doing business as well as help investment funds find trustworthy destinations for their effective investment.

+ attach more importance to the understanding, motivating and encouraging enterprises which have been recently established in compliance with the new Law on Enterprises because they will provide goods for the securities market in the future.

+ promulgate decrees giving detailed guidelines for the implementation of the regulations on foreigners' stock holding in the new Law on Investment recently passed by the National Assembly: they are



- In order to increase the number of goods on Vietnam securities market to attract more investment funds, state management agencies should:

+ devise policies and implement them determinedly and tightly in the equalization of state-owned enterprises which produce enough profits to attract investors and join the securities market.

+ perfect policies, mechanisms and techniques of stock auction to the public so that after they are equitized, state-owned enterprises will become a public company and meet requirements for listing and registering their transaction on securities transaction centers.

allowed in both listed and unlisted companies or only listed companies.

+ diffuse information about securities and the securities market, as well as knowledge about securities investment funds to public investors. The common way is to open regular workshops on investment funds, opportunities and risks when pouring money in investment funds....

The participation of securities investment funds as professional investors is very extremely necessary for sustainable development of Vietnam securities market. The above solutions are expected to contribute to accelerating this form of companies on the Vietnamese securities market ■