

Building Investment Capability and the Product Manufacturing Machinery

How does a high-net-worth (HNW) client approach the investment of their surplus wealth? What investment products are there so far in Vietnam and what can be done to improve the diversity? Will the regulators permit overseas investment? What does all this mean for the nascent wealth management industry? A group of experts reflected on these issues in the fourth panel discussion of the Hubbis Vietnam Wealth Management forum.

These were the topics discussed:

- *How does a HNW client invest?*
- *What's the availability of personal investment products (or lack of) in Vietnam and why the constraints and why*
- *Asset management companies - growing well and broadening distribution?*
- *What's the "typical" Vietnamese personal investment mindset.*
- *How is the fund market for retail developing?*
- *What's the client education journey?*
- *What's the risk of there being suitability issues? Is there a risk of mis-selling?*
- *Are there issues of market developing too quickly? How can you invest overseas? What can you do overseas? When will money be able to move offshore?*
- *Do foreign banks seem uninterested in selling funds in Vietnam?*
- *How will you encourage clients to invest longer term?*
- *How can you prevent redemptions?*
- *As asset management companies look to court distributors - is it foolish to compete on fees?*

PANEL SPEAKERS

- Xuan Dung Nguyen Thi, Investment Director, VinaCapital
- Terence Hieu Tran, Deputy CEO, Chief Distribution Officer, VietFund Management
- Trieu Ngo The, Chief Executive Officer - Vietnam, Eastspring Investments





EXECUTIVE SUMMARY

The Vietnamese wealth management market is in its infancy, but the economy and private wealth are both set to register very positive, and possibly dramatic growth. The government does not yet allow investors to purchase overseas assets, partly because funds are needed onshore to help spur and fund the economy's growth and partly because the authorities fear excess outflows and currency volatility.

But local investors surveying opportunities at home are faced with a relatively sparse cupboard of products. The open-end fund market was only liberalised in 2012 and the mentality to this day remains focused on simple savings products rather than longer-term investment products. More education is required, as well as greater diversification of the product base. Delivery via digital channels is on the rise, but it requires an investment that the industry, as yet, is struggling to justify.

And the retail market, whether this is the growing ranks of mass affluent or the rising numbers of wealthy investors with more than USD1 million to invest, needs to have greater optimism in the future of Vietnam's economy and stability. The regulator and authorities, generally praised for their accommodative and reasonable approach, can nevertheless do more to encourage the wealth management industry.

None of these of these developments will take place overnight, but all are required if Vietnam is to eventually



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emulate the healthy developments seen in neighbouring ASEAN markets such as Thailand, or nearby Malaysia, both of which are a decade or two ahead of Vietnam.

A REPRESENTATIVE FROM A LEADING FUND management firm opened the discussion by recalling some pioneering steps his firm had taken, for example in 2013 converting all its closed-ended funds to open-ended funds, making it far easier for investors to buy in and sell out. The firm also launched the market's first ETF fund, as well as the first ever pension fund in the equities market. "We are proud to be a pioneer and that has helped us build the largest volume of assets under management (AUM). Today we offer the largest product basket to our client, ranging from bond funds to equity funds, balanced funds and others."

Seeking higher returns

Another top representative from a leading fund management firm operating in Vietnam highlighted how his firm manages funds for a leading global brand insurance group as well as for retail clients. He noted how there is today far more focus in Vietnam on investment products, as people seek higher returns.

A third high-level guest explained how his firm manages funds for international investors and has since an acquisition in 2012 been expanding more into the local investor market. The firm has funds listed on the London Stock Exchange and also offers a UCITS structured fund listed in Luxem-



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bourg for the offshore investor. For the local onshore investor, the firm has been promoting closed-end and open-ended funds since 2013 for retail and institutional investors, both international and local.

"The size of the market here for funds is still very limited," an expert reported. "But we are growing rapidly, with an estimated 130% expansion in 2017 over 2016. And this year we expect the open-ended fund market will grow around in the region of 65% or



more, with a similar pace anticipated for 2019. This means that within the next five years the market will be three to four times larger than it is today.”

But the market remains limited

The same expert explained that the HNW market itself is still limited. The amount of ultra-HNWI Vietnamese, of course, remains very limited, but the numbers are growing from the estimated level of 1000 or below. Meanwhile, the HNWI segment with more than USD1 million to invest is growing even faster, and the most dramatic growth is coming from the mass affluent segment, those with assets to invest of between USD100,000 and USD1 million, which will balloon to more than 1 million people in the next 10 years.

“With this huge growth ahead of us,” he explained, “we are building a wealth management arm as there are great opportunities ahead for these people to diversify their investments and of course mutual funds are the perfect fit. The mentality today is of course still focused on savings rather than investment, with a one-year view considered long-term. The industry needs to evolve to boost their confidence, to professionalise the advice and offerings and to greatly diversify the range of products and services.”

Converting the savings mentality to the investment view

Market education is essential, opined another guest. “Most of the retail investors buy and look short-term,” he observed. “We are trying to help change this perspective, but it is tough to change the whole mindset and it will not happen overnight.



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Redemption of funds is an issue for the market, explained another panellist. “This behaviour can be deterred by higher exit fees, but we prefer to work more closely with our clients to make sure we understand them, their risk and return thresholds and expectations. We must also innovate and help change the mentality from savings to investment for the longer-term.”

Another expert highlighted the need for investments to suit the investors. “These must be suitable to their risk profiles, their ages, their lifestyles and their expectations,” he commented. “There are more



opportunities than a decade ago but we need to educate the investors to believe in the future of the Vietnam economy and the earnings and growth.”

The emergence of digitisation

The digitisation of the offering is another area that the experts highlighted as a priority. “We have continued with a very traditional approach, face to face with our clients, but I do wish that we could go digital, selling products through a digital platform, but that would require great improvement in terms of the infrastructure, in terms of the local investor mindset, in terms of technology, in terms of the payment platform.”

Another guest reported that his firm has already introduced a digital platform that allows investors to view their available investment products. “They can easily run a simple test to understand their risk tolerance and based on that they can then decide which product we currently provide they want to buy into and at the click of a button they can do so, including funds transfers. I would now like to see greater development of the regulatory infrastructure and the support of all the relevant authorities.”

Regulators will control the pace of diversification

Another guest agreed and commented on the improving regulatory situation. “So far, we think the government is helping, but of course Vietnam is quite far behind all the [other ASEAN] markets. It was only in 2012 that open-ended funds were allowed, and we already have more than 20 and the regulators are working with the industry to obtain

feedback and to help the market develop further. The open-ended structure right now in Vietnam is around 95% similar to the rules of UCITs in Luxembourg, so it is evident that the right steps are being taken.”

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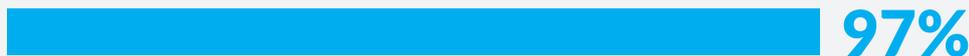
Another expert remarked that he would like to see the development of more money market funds to allow investors with cash to invest in the short-term to do so through registered investments in the markets.

The discussion closed with the panel focusing on the potential for overseas investments from onshore in Vietnam. “This is a question for the regulators,” answered one panellist, “as currently Vietnamese people are not allowed to invest overseas. In order for Vietnamese to conduct overseas investment, they need to obtain a new licence from the authorities, but it is very difficult and there are many steps to overcome, so realistically this is not feasible.”

An expert did, however, note that in Indonesia the retail market is permitted to invest a portion of funds overseas via funds. “This trend is likely in Vietnam, but we cannot predict how long it might take for the government to allow this in any form.” ■

ARE CLIENTS BECOMING SMARTER AND MORE DEMANDING?

Yes



No



Source: Vietnam Wealth Management Forum