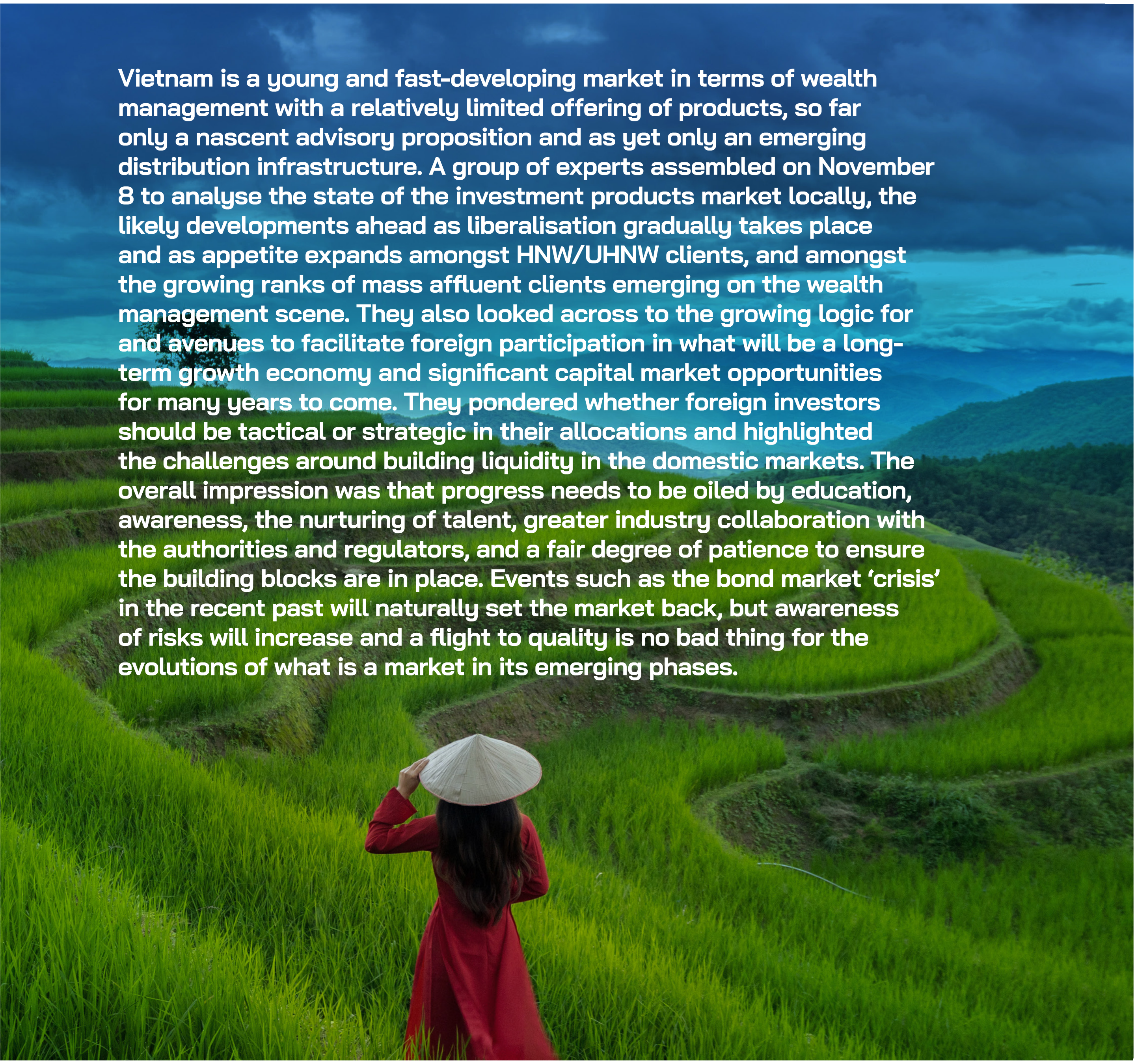
The Evolution of Private Client Investment Demand in Vietnam



Vietnam is a young and fast-developing market in terms of wealth management with a relatively limited offering of products, so far only a nascent advisory proposition and as yet only an emerging distribution infrastructure. A group of experts assembled on November 8 to analyse the state of the investment products market locally, the likely developments ahead as liberalisation gradually takes place and as appetite expands amongst HNW/UHNW clients, and amongst the growing ranks of mass affluent clients emerging on the wealth management scene. They also looked across to the growing logic for and avenues to facilitate foreign participation in what will be a long-term growth economy and significant capital market opportunities for many years to come. They pondered whether foreign investors should be tactical or strategic in their allocations and highlighted the challenges around building liquidity in the domestic markets. The overall impression was that progress needs to be oiled by education, awareness, the nurturing of talent, greater industry collaboration with the authorities and regulators, and a fair degree of patience to ensure the building blocks are in place. Events such as the bond market 'crisis' in the recent past will naturally set the market back, but awareness of risks will increase and a flight to quality is no bad thing for the evolutions of what is a market in its emerging phases.

View the photos from this event

Key Insights and Advice in More Detail

This short panel discussion opened with a guest acknowledging the constraints on both local and international investments in Vietnam. He noted key challenges and opportunities in the Vietnamese investment landscape, particularly due to regulation and the state of the market's evolution, a very strong home country bias with investors able to build exposures to domestic equities, bonds and to the nascent and relatively limited mutual fund market, but with very limited ability to diversify offshore.

Expanding the product base

He highlighted the need for more product development, more sophisticated asset allocation, and the creation of more interesting financial products within Vietnam. He explained that the natural development of the domestic market would then lead to greater holdings in foreign assets, but regulation must also evolve to accommodate that type of more liberalised approach.

Engaging the regulators

The conversation expanded to consider the development of the fund management industry in Vietnam over the next several years, with guests pointing to the value of engaging regulators in dialogue on market evolution, improving and expanding the pension system, and creating more attractive defined contribution retirement plans, improving rules and guidance around pension contributions and clarifying fiscal/tax incentives.

Chair:

» **Michael Stanhope**
Chief Executive Officer & Founder
Hubbis

Panel Members:

» **Rainer Michael Preiss**
Partner & Portfolio Strategist
Das Family Office

» **Eric Levinson**
Head of Business Development
VinaCapital

Building the investor base

An expert explained how a robust pension system will lead to more contributions from investors within Vietnam, thereby building the investor base, and subsequently driving growth in the capital markets and the mutual fund business. This goes hand in hand with long-term financial planning, better education of the client base, and better collaboration of the intermediaries and advisors with the regulators. Appetite for and openness towards foreign allocations would then follow more naturally for diversification purposes, but of course, the regulators would need to accommodate that.

Attracting foreign capital

A multi-family office representative from Singapore that invests in Vietnam and more broadly emerging Asia explained that there are more opportunities to participate today, including the fairly recent Singapore launch of a Vietnam Country ETF.

He explained that their clients like to diversify globally, so interesting markets such as Vietnam are on the radar and it is best in those cases to gain easy access from offshore, such as the new ETF, without the need to transact onshore and go through all the attendant regulatory and logistical hoops. "It is as much about capital preservation as global asset allocation," he explained.

Tactical or strategic?

He added that for Vietnam the question is more as to whether allocations should be tactical or strategic, and then making sure the timing is right.

A local brokerage expert agreed that ease of access for foreign capital is important and pointed to their own local ETF and to a closed-end fund they listed in London. He said they try to bring Vietnam to the world, and [institutional] investors can buy from offshore, or through onshore funds, or directly onshore, and there are accounts that can be created relatively easily to those ends.

Opening the door to Vietnam

"We work with all types of private wealth investors such as MFOs or larger family offices, and for us, it is about helping them build their exposures, opening the doors to that capital," he said.

A guest pointed to the evolving distribution infrastructure in Vietnam and the democratisation of access to products via digital channels at the banks and specialist digital platforms, opening the doors also to newer assets such as digital tokens and cryptocurrencies as well.

Long-term growth on offer

Another panellist discussed Vietnam in the context of the 'China plus one' strategy, which is increasing the country's appeal to international allocators. He agreed that investors have to work out how they balance off

Key Takeaways

The experts acknowledged the constraints on both local products and investment opportunities in Vietnam, and the difficulties around regulatory permissions for international investments out of Vietnam.

There was robust emphasis on the need for more product development, sophisticated asset allocation, and the creation of innovative financial products within Vietnam.

The panel stressed the value of engaging regulators in regular and positive dialogue for market evolution, for improving the pension system, and clarifying tax and other incentives in order to encourage more products, a better advisory base and greater transparency.

A more robust pension system fosters better planning and increased investor contributions and diversity, driving growth in the capital markets, and promoting better collaboration between intermediaries, advisors, and regulators.

The experts highlighted rising opportunities for foreign capital participation, including for example, the fairly recent launch of a Vietnam Country ETF in Singapore, the availability of onshore ETFs, London and Swiss-listed funds, and the importance of encouraging offshore access as part of investors' global diversification into what is a strongly growing economy with good management by the authorities and a positive outlook.

They discussed the decision-making process between foreign investors taking tactical and/or strategic allocations in Vietnam and pointed to the importance of timing and liquidity for tactical allocation and patience for structural allocation.

They recommended Vietnam as an attractive developing market (actually it is currently a Frontier Market for MSCI) option and pointed to the impetus from the 'China plus One' strategy.

tactical allocation at particular times versus strategic allocation that will offer them long-term structural participation in Vietnam, which is set to be a growth market for many years to come and that is currently relatively lowly valued.

He explained that there are always ebbs and flows and pointed to the challenges faced last year when the State Bank of Vietnam raised interest rates and a corporate bond crisis occurred. During this period, convincing investors to buy mutual funds became difficult, given the lower real return on investments.

Mutual funds set to roar back

Despite struggles to meet brokerage sales goals in the past year, he did however see a potential shift in investor sentiment. He pointed out that the current term deposit rates in commercial banks are around 5.25%, creating an opportunity for banks to re-engage with investors. With term deposits maturing at lower rates, clients will seek better investment options.

He said that trends and shifts will benefit both fixed-income and equity funds, projecting returns of 7.5%-8% for fixed-income funds and multiples of that for equity funds over time. "We believe Vietnam is a great place to be an active manager, and we are believers in the longer-term perspective. Right now, I am very optimistic that with term deposits right now at 5.25% or less, the mutual fund business domestically will be very strong in 2024."

Liquidity is an issue to consider

Another guest pointed to difficulties in taking tactical positions in a country where the markets are relatively less liquid and dominated largely by domestic investors who can prove very fickle. "It is a market that has high growth potential but limited liquidity, so investors need to be aware of that," he explained. "The growth definitely argues the case for long-term exposures here, but liquidity is an issue." ■