

# Current Situation and Recommendations for Developing Institutional Investor Base in Vietnam Securities Market

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FiinGroup Chairman & FiinRatings CEO

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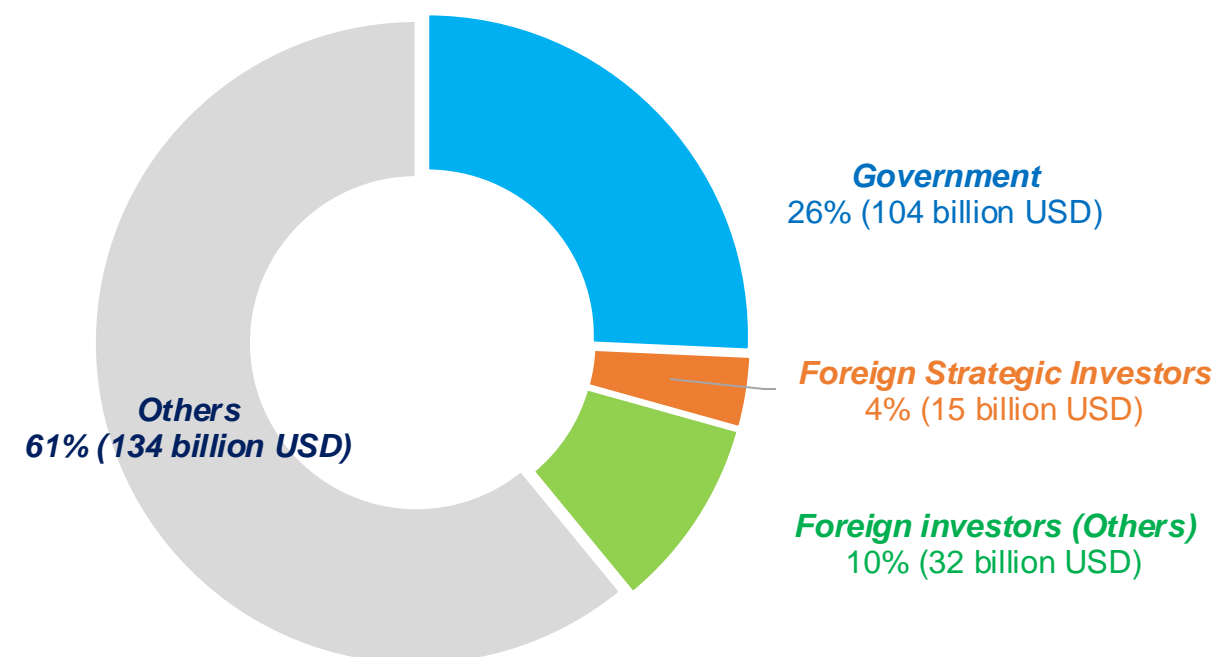
- 1. The Current Landscape of Institutional Investors in Vietnam Securities Market**
- 2. Comparisons with Regional Peers**
- 3. Implications and Policy Recommendations**



# Ownership Structure: Equity Market and Corporate Bond Market

*There is still considerable room for institutional investors to increase their ownership in both the equity and corporate bond markets*

**Figure 01: Ownership Structure by Investor Type in the Equity Market (HOSE + HNX + UPCOM) as of 17 July 2024**

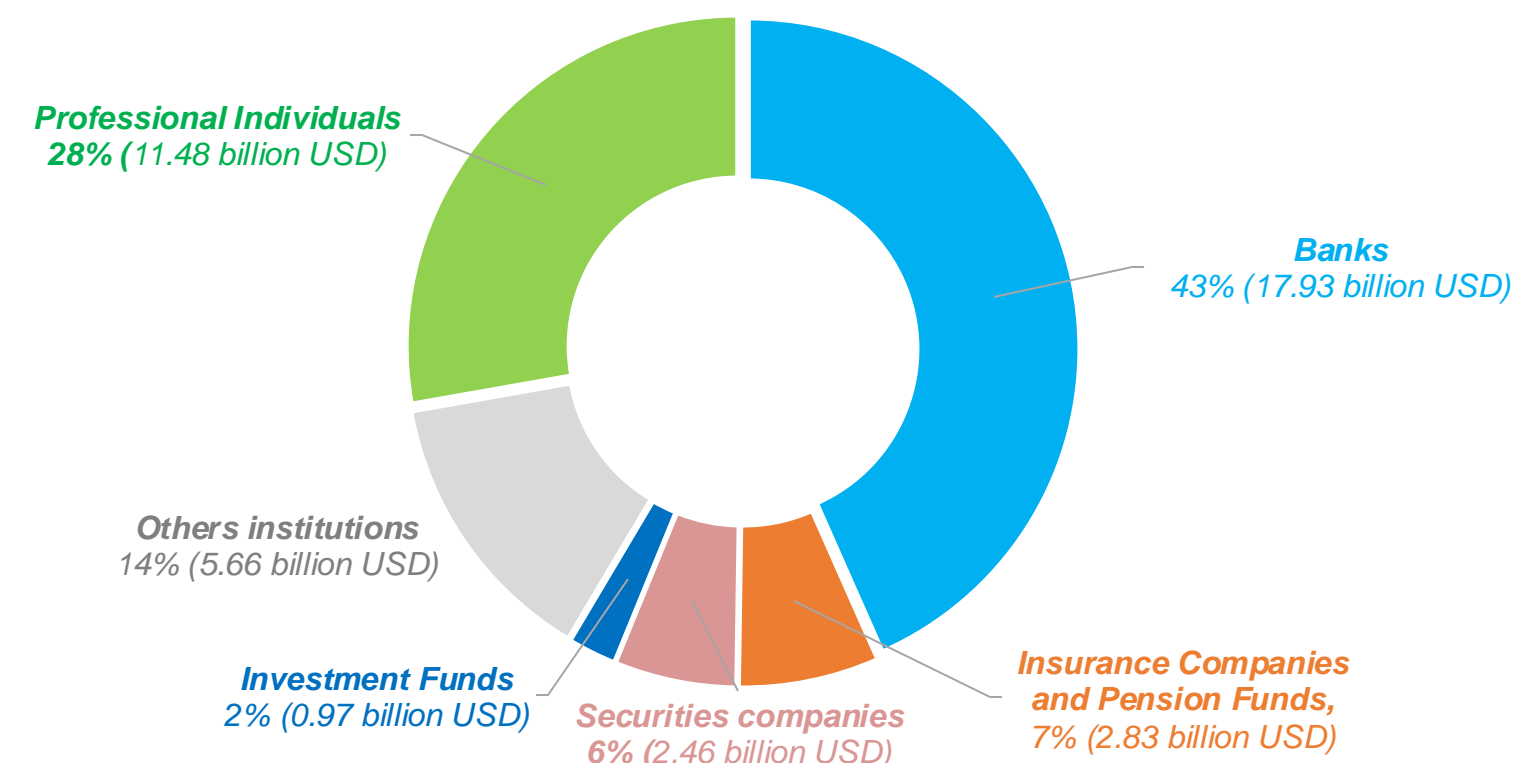


Source: FiinGroup

Note: The ownership percentages are calculated based on the number of outstanding shares listed on HOSE, HNX, and UPCOM. The ratio calculated on the basis of marcap would be slightly higher.; Foreign Strategic Ownership is defined as shares owned by a strategic investor with more than 5% stake. The data is updated as of July 17, 2024.

- Foreign investors currently hold approximately 14% of the Vietnamese equity market. Specifically, the percentage is 17.3% on HOSE, 5.4% on HNX, and 3% on UPCOM - the calculation on the basis of the total number of outstanding shares. At the end of 2018, the foreign ownership ratios were 19.83% (HOSE), 10.99% (HNX), and 4.24% (UPCOM).
- Although attracting institutional investors still depends on the attractiveness of specific stocks (such as scale, stock quality, liquidity, etc.), the free-float ratio of the Vietnamese stock market is relatively low, estimated at around 45.5%. Therefore, along with the state divestment process in many enterprises, there is still considerable room to attract more institutional investors, both domestic and foreign ones.

**Figure 02: Investor Ownership Structure by Outstanding Value of Private Placement Corporate Bonds as of 31 December 2023**



Source: FiinGroup, HNX

Note: The percentage ratio is calculated based on the outstanding value of bonds as of December 31, 2023.

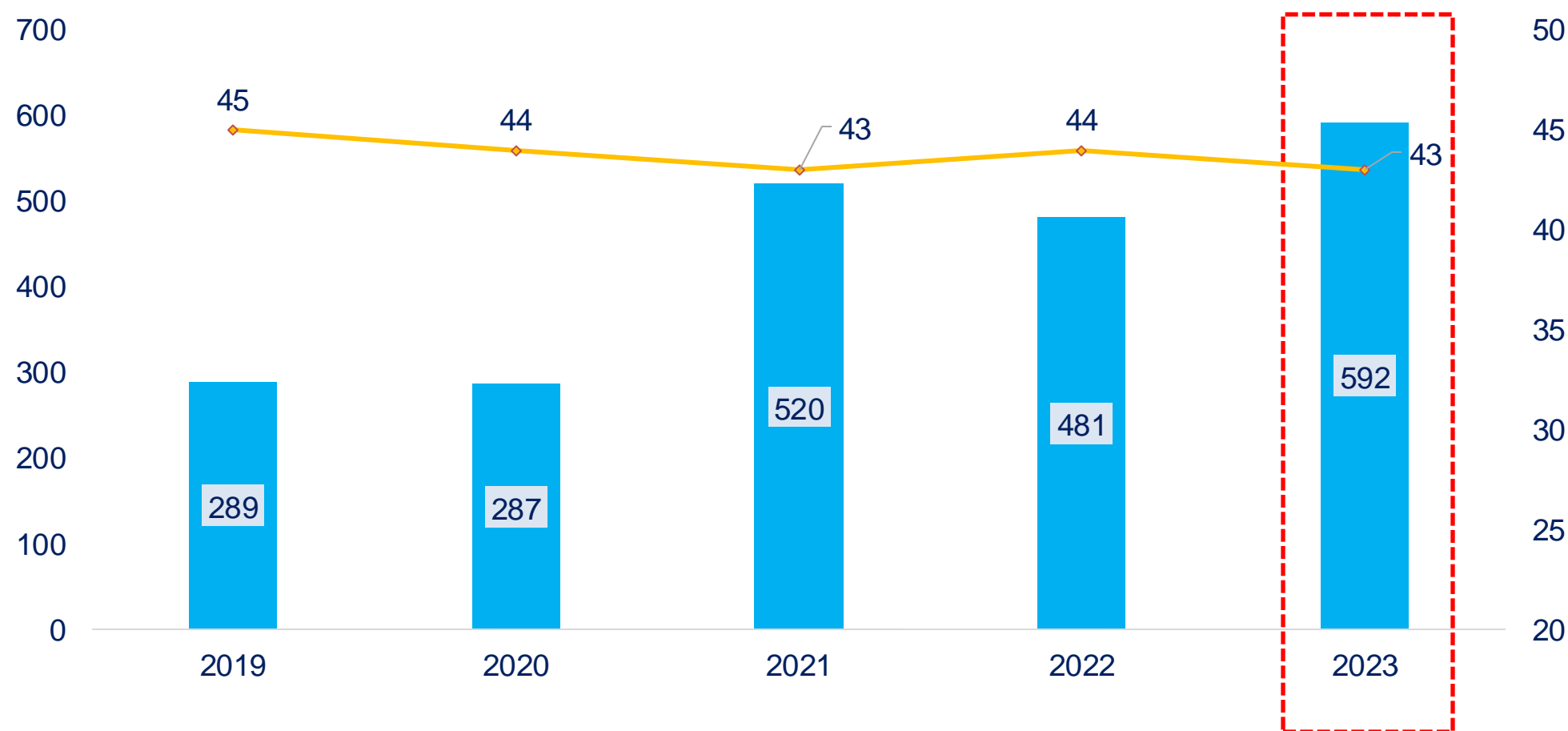
- Not only on the bond issuance side, but commercial banks are also still the largest investor in the privately placed bond market, accounting for 43% at the end of 2023. This is a relatively high ratio compared to other markets in the region. Unfortunately, institutional investors like investment funds, insurance companies, and private pension funds, have a small ownership participation (9%). The excessive dependence of the corporate bond market on banks as the main buyers will lead to greater volatility in the bond market and this also implies a higher policy coordination among regulators in the Vietnamese financial market.

# Group 1: Active Domestic & Foreign Investment Funds

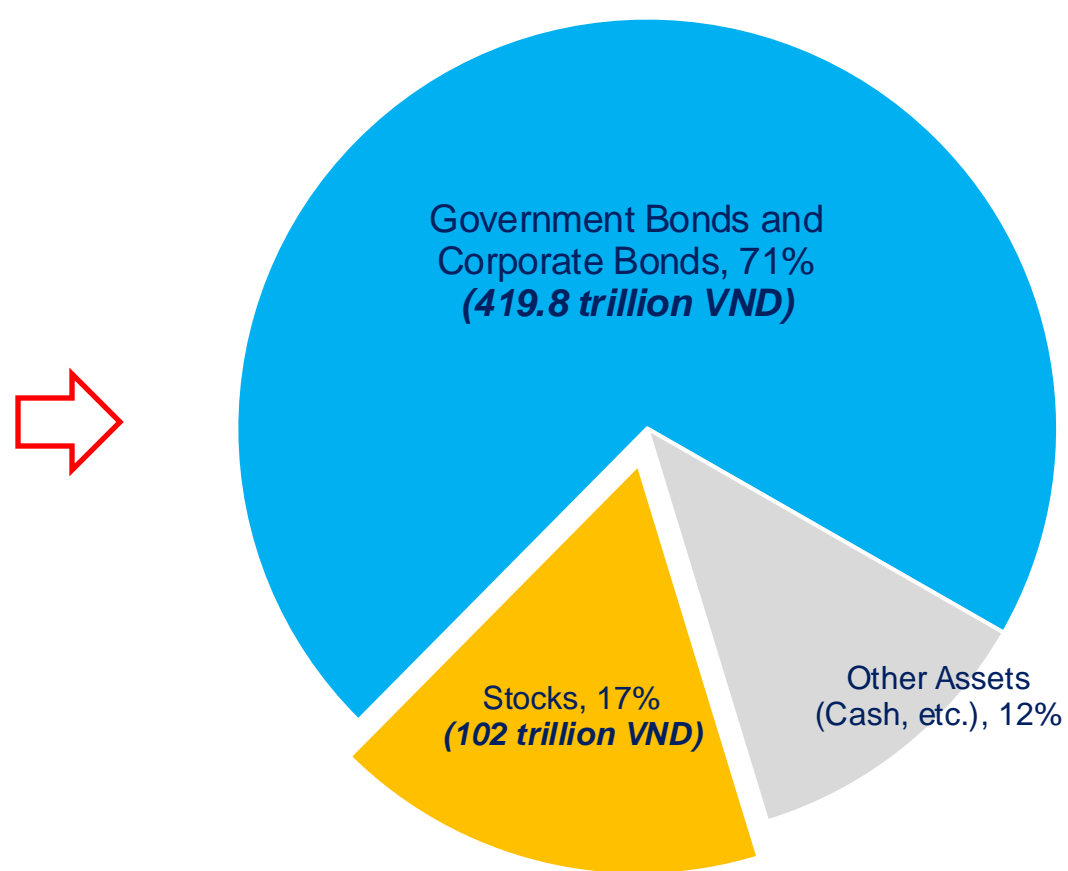
AUM mainly belonged to foreign investment funds managed by local licensed Fund Management Companies. Insurance funds experienced a high growth in recent years but allocation to equity/ stocks is still very low (17%).

**Figure 03: Total value of Assets Under Management (AUMs) by locally-licensed fund management companies**

■ Total value of assets under management (Trillion VND)    ◆ Number of fund management companies



**Asset allocation at the end of 2023**

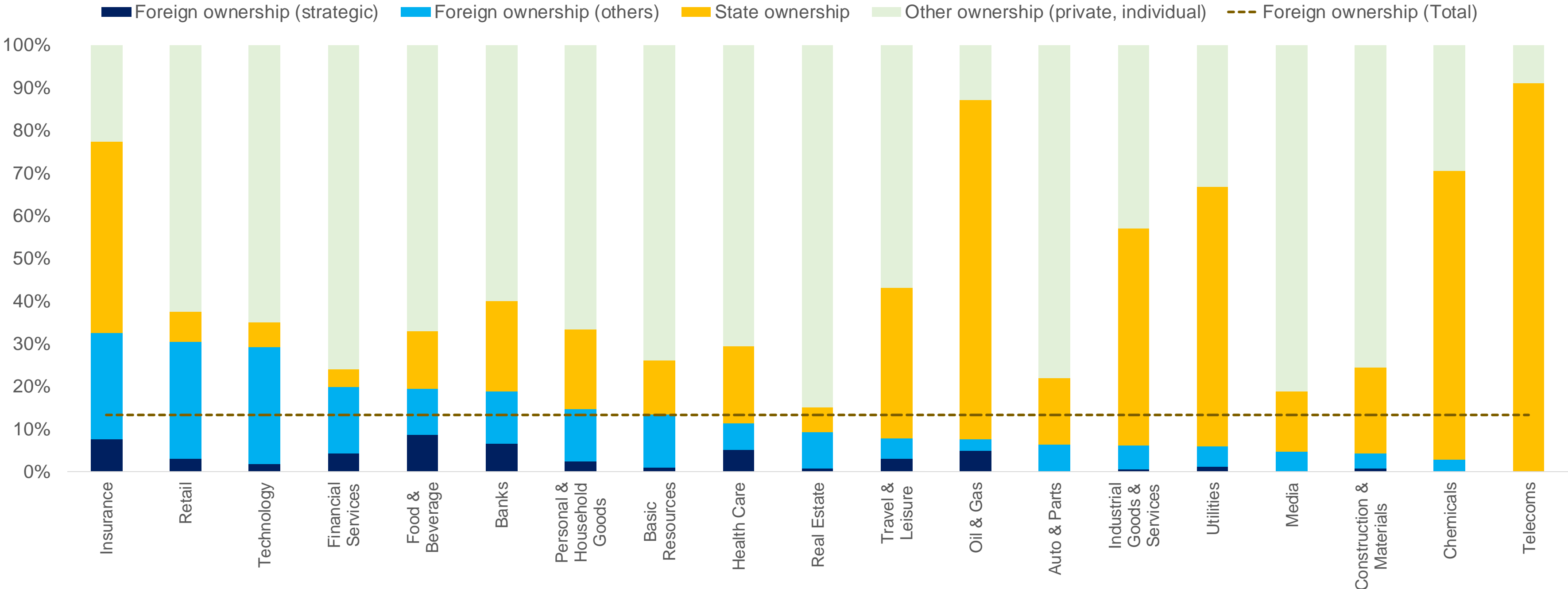


Source: FiinGroup, compiled from the Annual Reports of the State Securities Commission.  
 Note: The figure does not include the AUM by active offshore funds

# Group 1: Active Domestic & Foreign Investment Funds (continued)

Foreign investment funds favor sectors tied to the potential of the domestic consumption including Insurance, Retail, Securities, Food & Beverage, Banking, Consumer Goods; and Technology.

Figure 04: Foreign Investor Ownership Ratio by Sector (updated as of July 16, 2024)

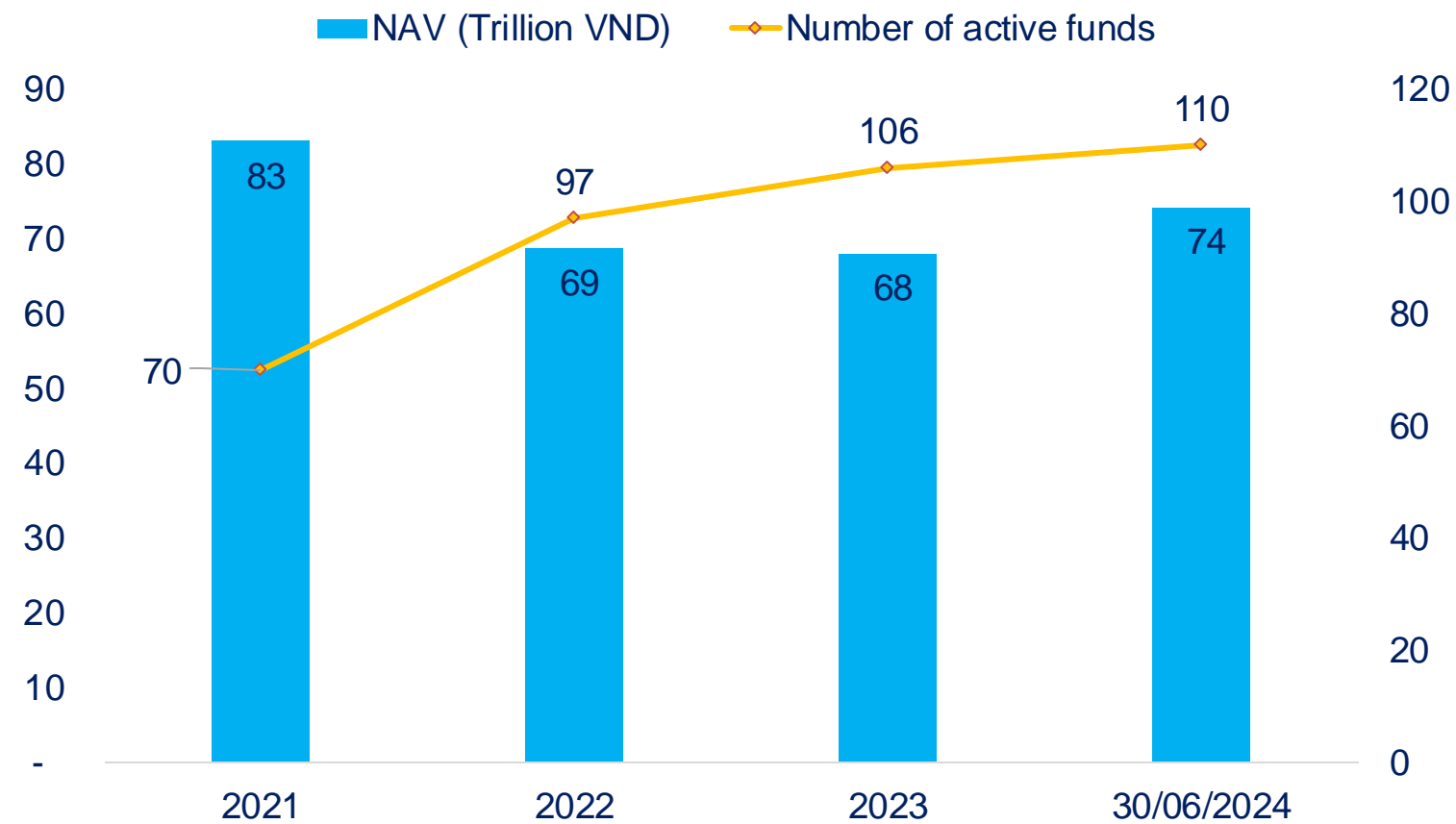


Source: FiinGroup  
 Note: Ownership ratio is calculated based on the number of outstanding shares on HOSE, HNX, and UPCOM. The ratio calculated on the basis of marcap would be slightly higher. Foreign Strategic Ownership is defined as shares owned by a strategic investor of over 5%.

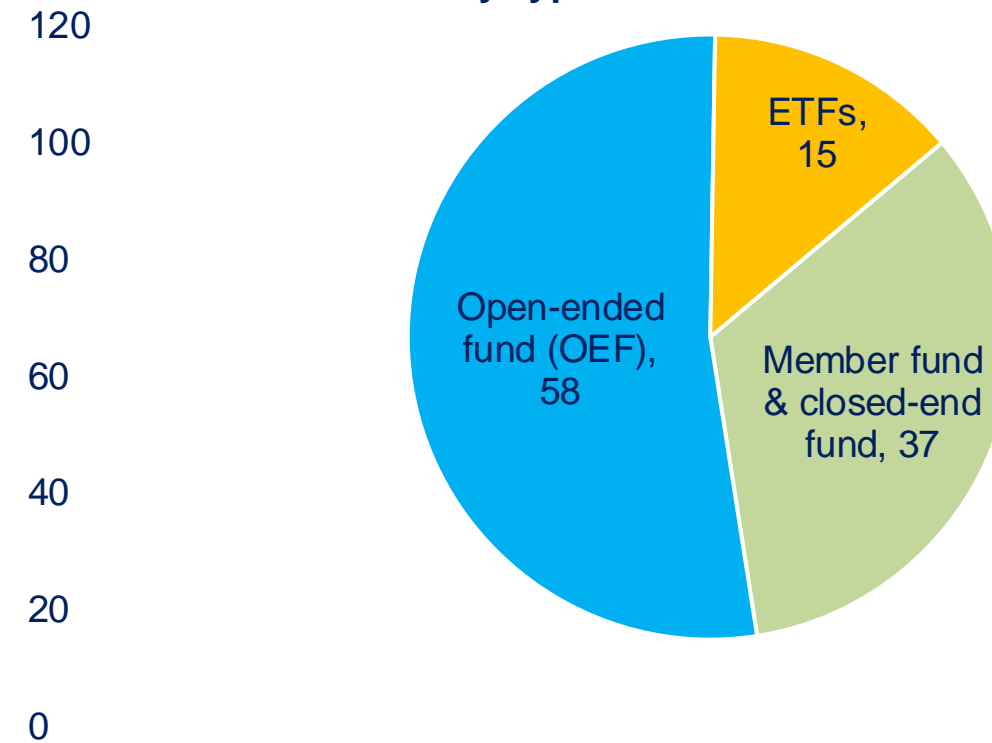
# Group 1.2: Domestic Investment Funds

The number of funds is not small, but the asset size is still very small.

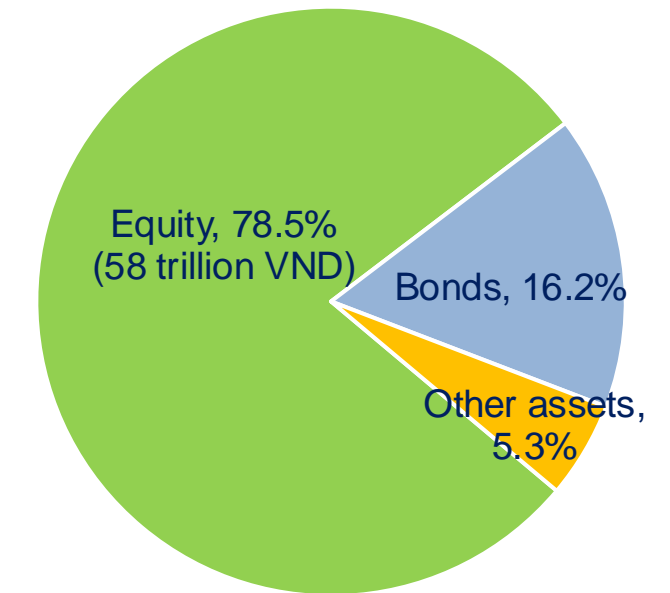
**Figure 05: Scale of Net Asset Value (NAV) of Domestic Funds**



**Structure by Types of Funds as of June 30, 2024.**



**Structure by Asset Allocation as of June 30, 2024**



Source: FiinGroup

Note: Domestic funds are defined as funds established in Vietnam and operated by fund management companies licensed to operate in Vietnam. The figures do not include funds managed by domestic fund management companies on behalf of foreign investors.

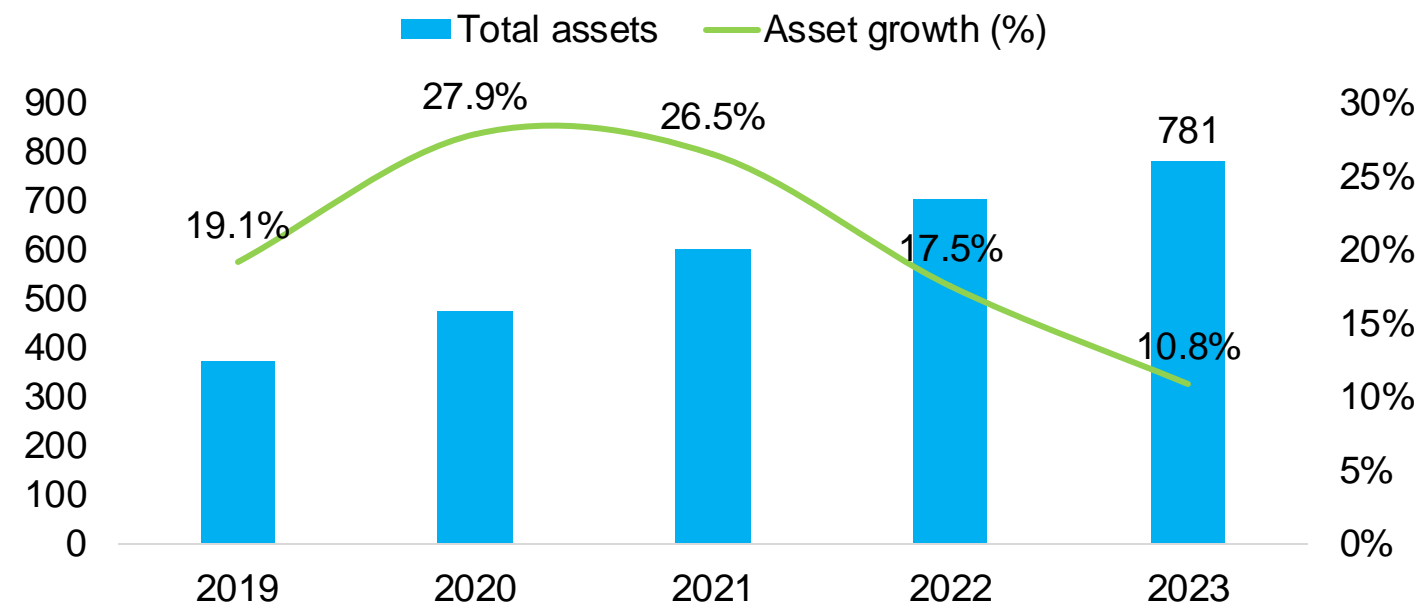
## 04 Reasons for the limited Scale of Domestic Funds:

- Vietnamese people prefer self-managing assets to entrusting professional fund managers.
- Policy incentives are not attractive enough for individuals to participate in funds managed by domestic fund management companies.
- Limited time horizon and not yet proven track record in generating superior return or NAV performance by local fund managers.
- Deposit interest rate environment remains high, volatile, and not significantly lower than the funds' performance return.

## Group 2: Insurance Companies and Insurance Investment Funds

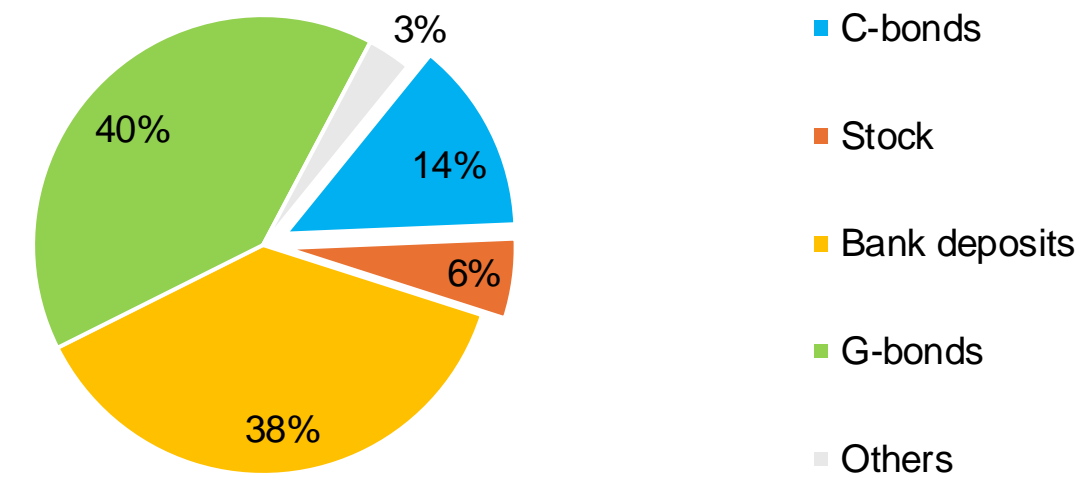
Recorded the total assets of 906 trillion VND by the end of 2023 but their allocation to corporate bonds and stocks is still very small.

**Figure 06: Total Assets of Life Insurance Companies, 2019 - 2023.**



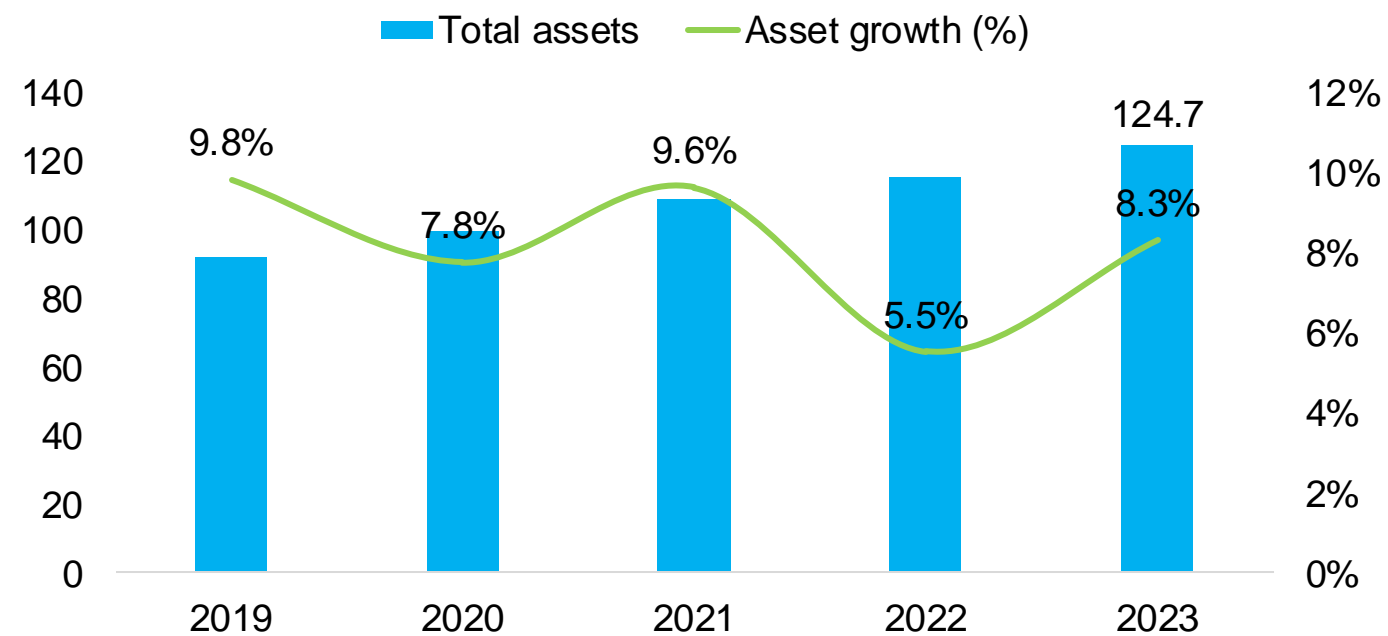
Source: FiiGroup, Insurance Supervisory Authority (ISA)

**Figure 07: Portfolio Allocation of Life Insurance Companies, 31/12/2023.**



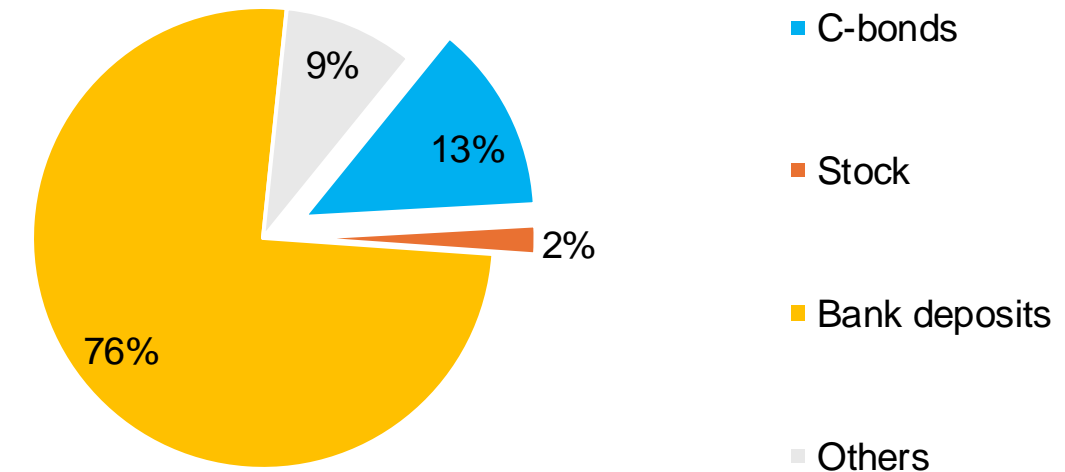
Source: FiiGroup, 2023 Financial Statements of 19 life insurance companies

**Figure 08: Total Assets of Non-Life Insurance Companies, 2019 - 2023.**



Source: FiiGroup, Insurance Supervisory Authority (ISA)

**Figure 09: Portfolio Allocation of Non-Life Insurance Companies, 31/12/2023.**

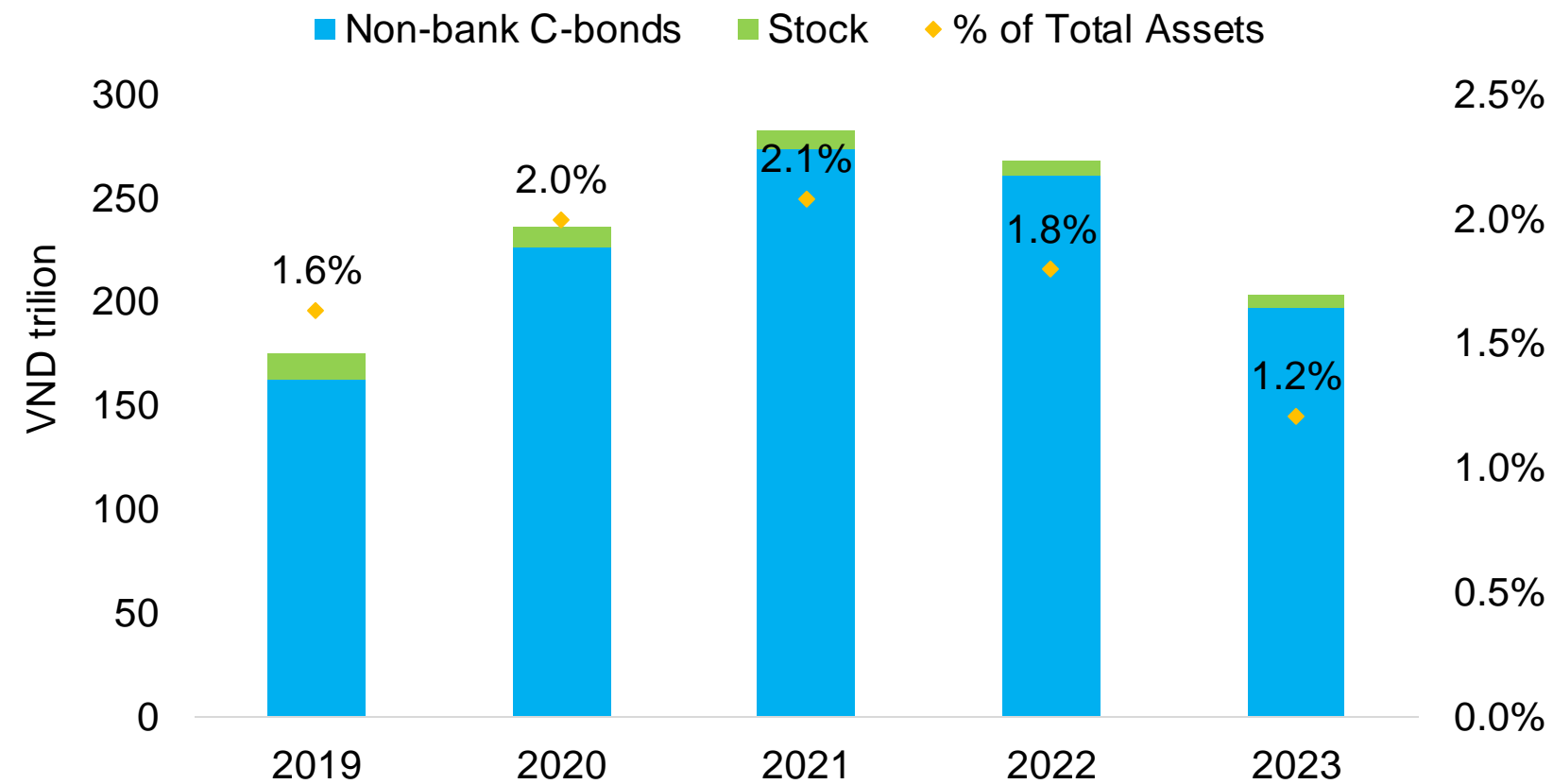


Source: FiiGroup, 2023 Financial Statements of 14 non-life insurance companies that have published their financial statements

## Group 3: Commercial Banks

*Despite the high ownership rate in the bond market, the size is still relatively small compared to the total assets of the banking system.*

**Figure 10: Investments in Non-bank Corporate Bonds and Stocks by Commercial Banks**



Source: FiinGroup

Note: The data are sourced from the consolidated financial reports of 29 listed banks (excluding SCB and Agribank) as of December 31, 2023.

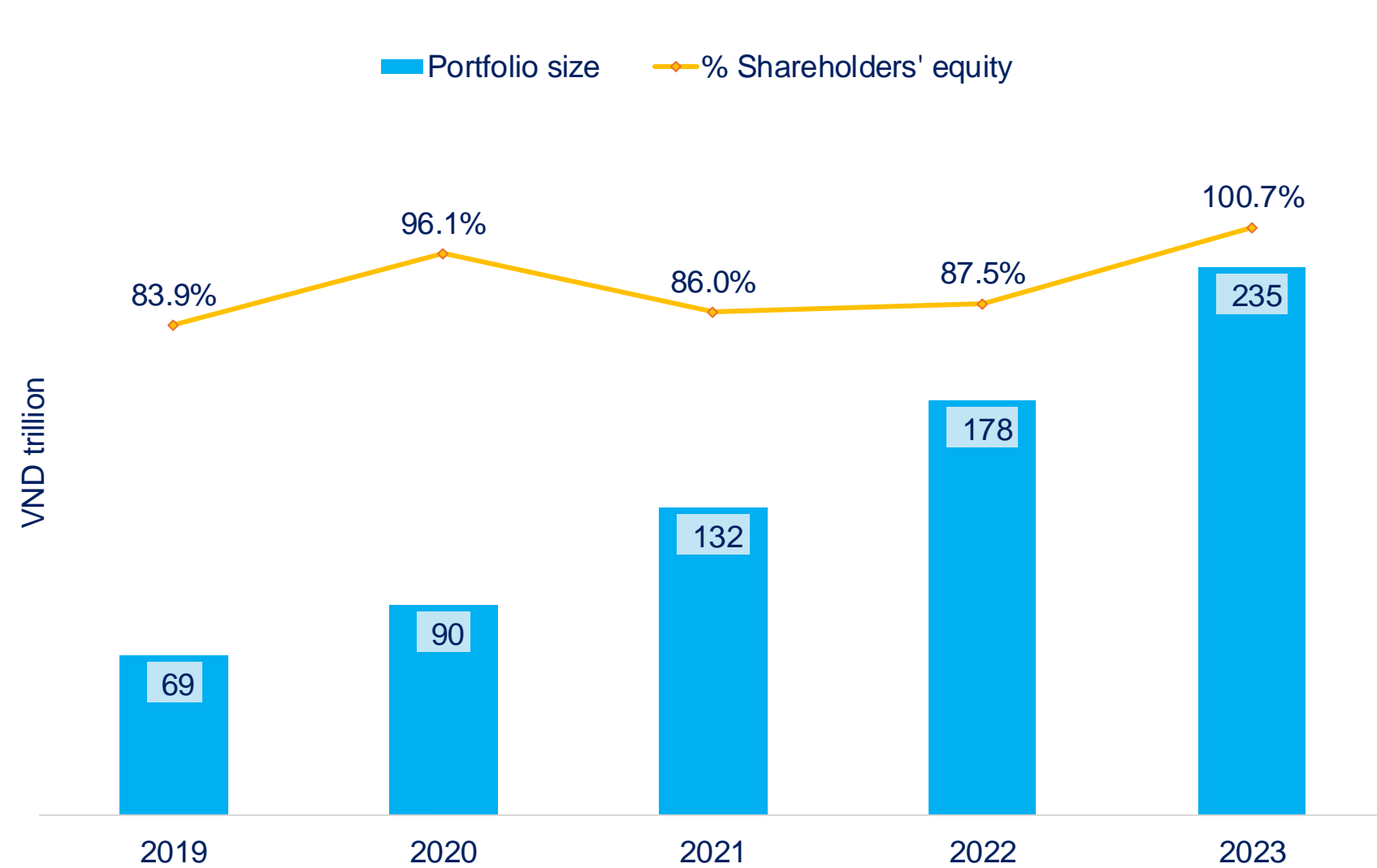
- Commercial banks primarily invest through their subsidiaries or affiliated arms namely securities firms and fund management companies.
- The State Bank of Vietnam's regulations on risk management.
- Investment banking model has not been clearly established in Vietnam.



## Group 4: Securities Companies

Proprietary trading accounts for a small proportion due to low equity base, and proprietary portfolio mainly maintained to serve hedging their derivatives exposure

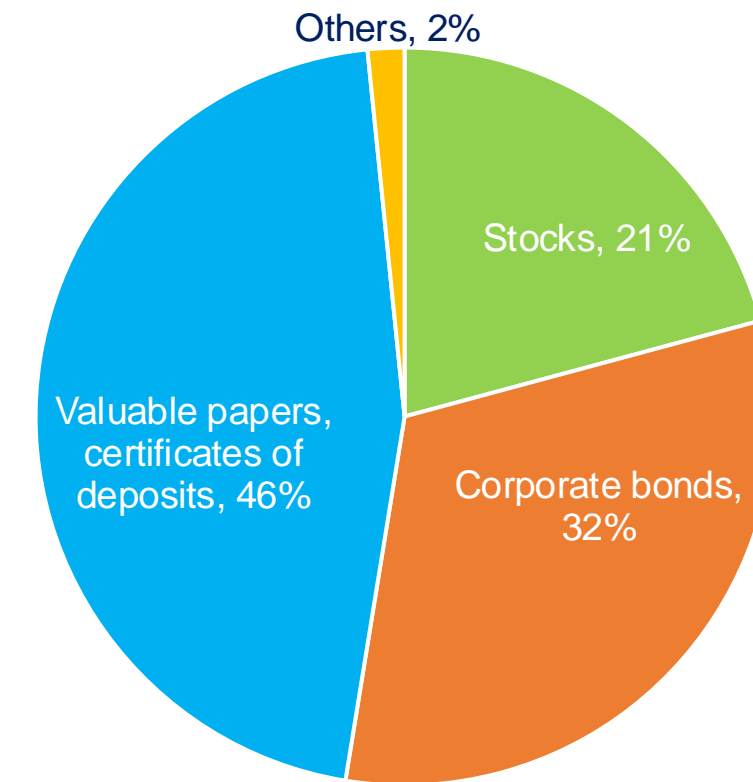
Figure 11: Size of Proprietary Trading Books of Securities Companies



Source: FiinGroup

Note: FiinGroup compiled the data from the financial reports of 85 securities companies, with a total asset value reaching nearly 483 trillion Vietnamese Dong by the end of 2023.

Structure of the proprietary trading portfolio of the Securities Company, as of December 31, 2023



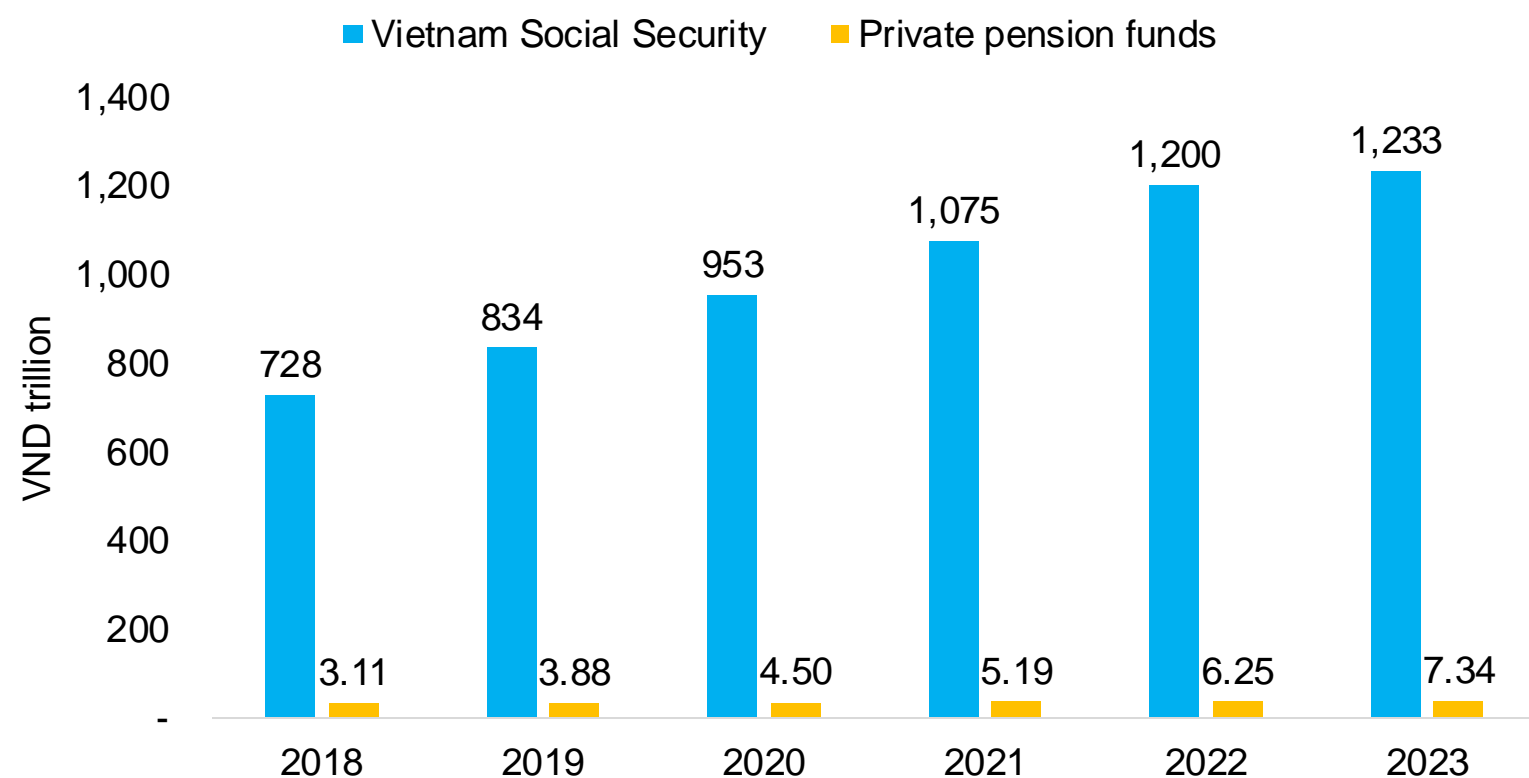
### There are several reasons for the limitations in scale:

- High market volatility makes it challenging for securities companies to manage risks and profitability.
- Limited capital capability, while most of their debts are primarily used for margin lending activities.
- Regulations on capital adequacy by the State Securities Commission.

## Group 5: Vietnam Social Security and Private Pension Funds

10 private pension funds have been licensed and in operations, but their scale is still very limited; while the Vietnam Social Security is not yet allowed to invest in stocks and corporate bonds.

Figure 12: Asset size of Vietnam Social Security and private pension funds



Source: FiinGroup

Note: Data compiled from the consolidated financial statements of the organizations/companies; The 10 private pension funds included 04 private pension funds licensed and operating under fund management company and 06 private pension funds licensed and operating under the life insurance regulations.

### Private pension funds have not been able to attract capital and achieve growth due to:

- The legal framework is not yet complete and is still in the process of formation.
- There are not enough attractive incentives for individuals to voluntarily participate in these funds.

### The Vietnam Social Security primarily invests in government bonds with a smaller portion allocated to bank deposits, and currently has not invested in the stock and corporate bond markets. Vietnam can consider following international practices, which include:

- Investing a small percentage in high investment grade bonds or low to very low-risk corporate bonds, similarly to some countries in the region.
- Investing in bonds of State-owned enterprises (EVN, Vinachem, Petrovietnam and their subsidiaries, etc.) with high credit ratings. This solution is beneficial compared to the fact that many State-owned enterprises have been taking up the high-interest foreign currency loans or debts.
- Restricting direct investment and trading in stocks but the pensions can invest in licensed investment funds with proven capabilities and suitable risk appetite (under the fund-of-funds model).

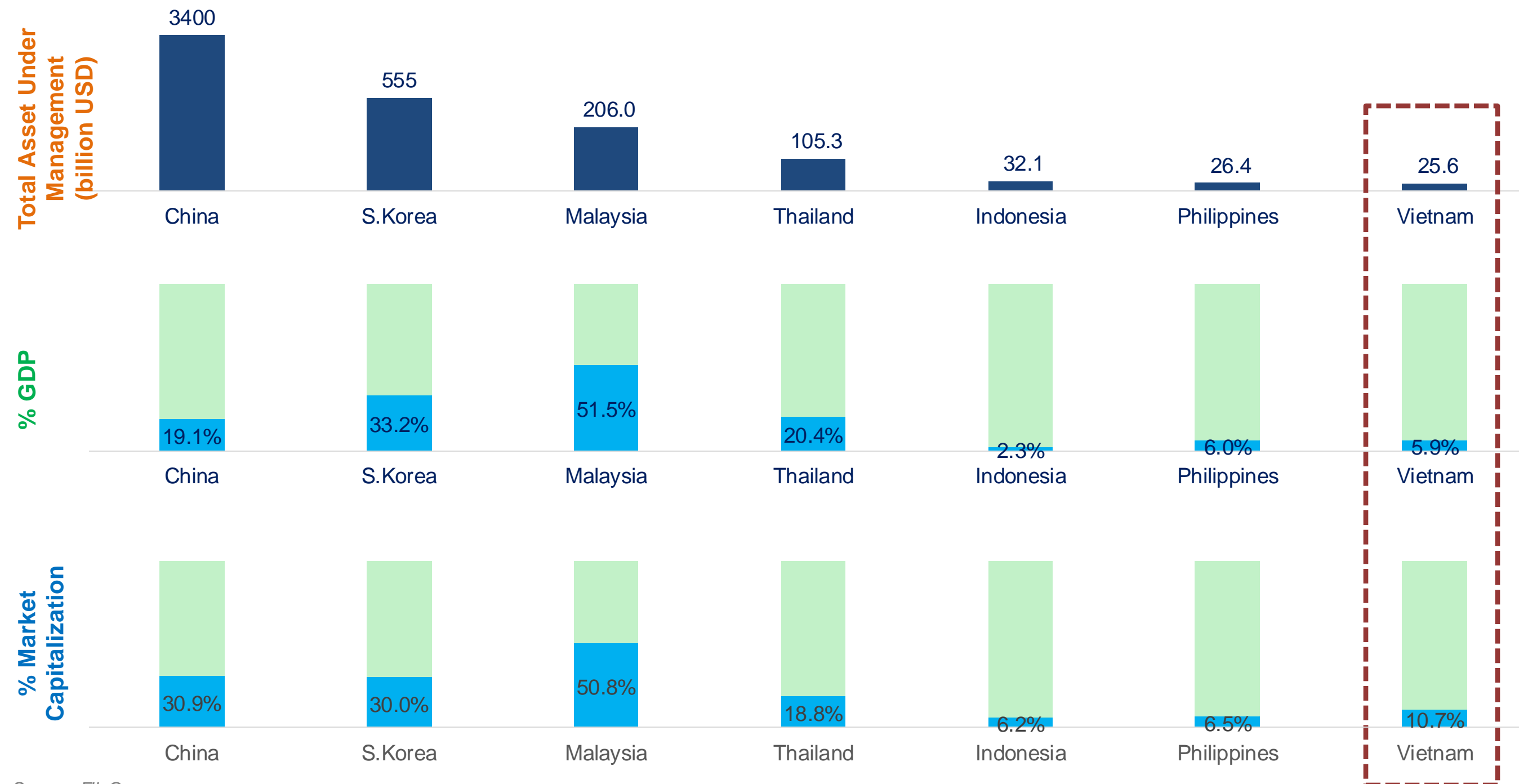
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# Foreign Funds Ownership in Equity Market vs. Selected Peers

Asset size under management of foreign funds managed by domestic fund management companies compared to some other countries in the region

Figure 13: Asset size under management at fund management companies in some Asian countries



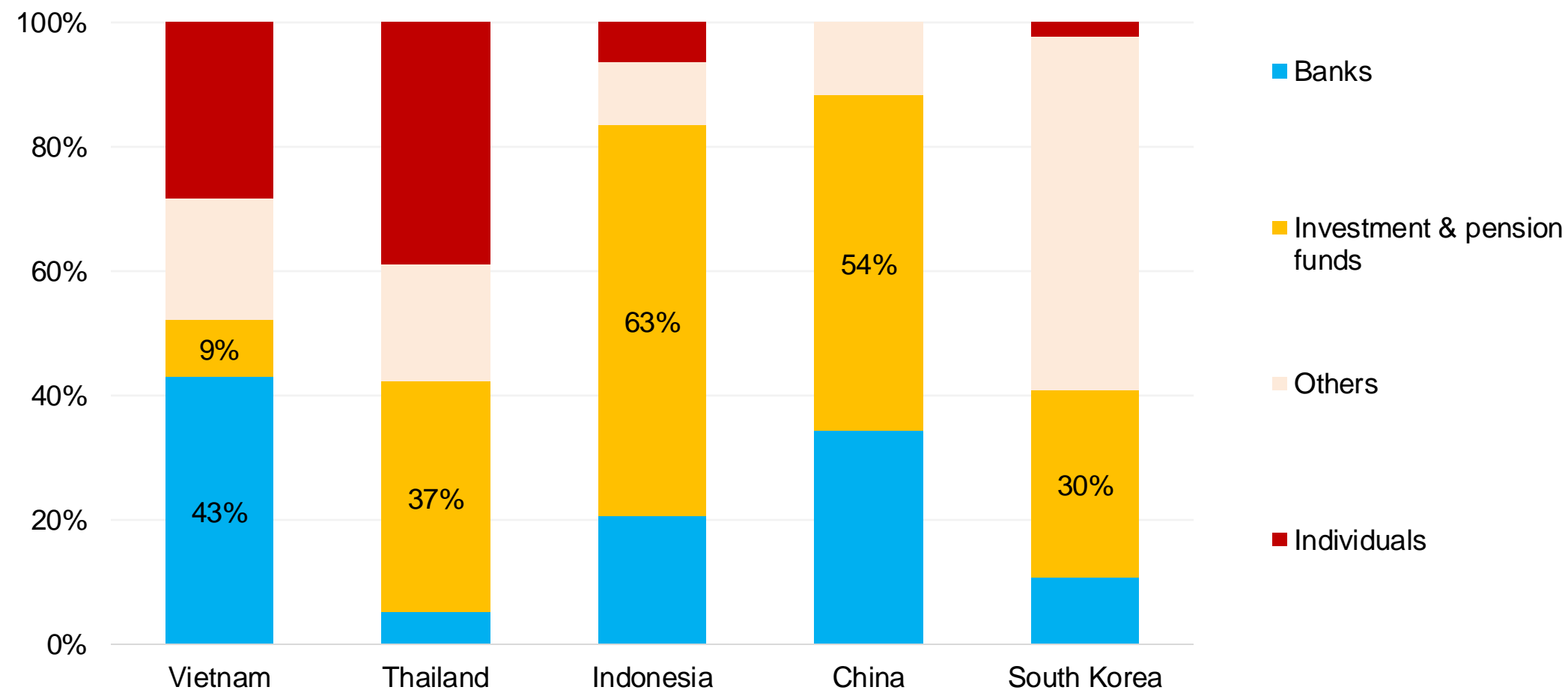
Source: FinGroup.

Notes: (i) Vietnam's data sourced from 2023 Annual Report of the State Securities Commission. Total asset value under management is the total assets managed by domestic fund management companies, excluding some active offshore funds; (ii) Data for other countries in the region are collected from the national securities regulators of those countries.

# Investor Profile in Corporate Bond Market vs. Selected Peers

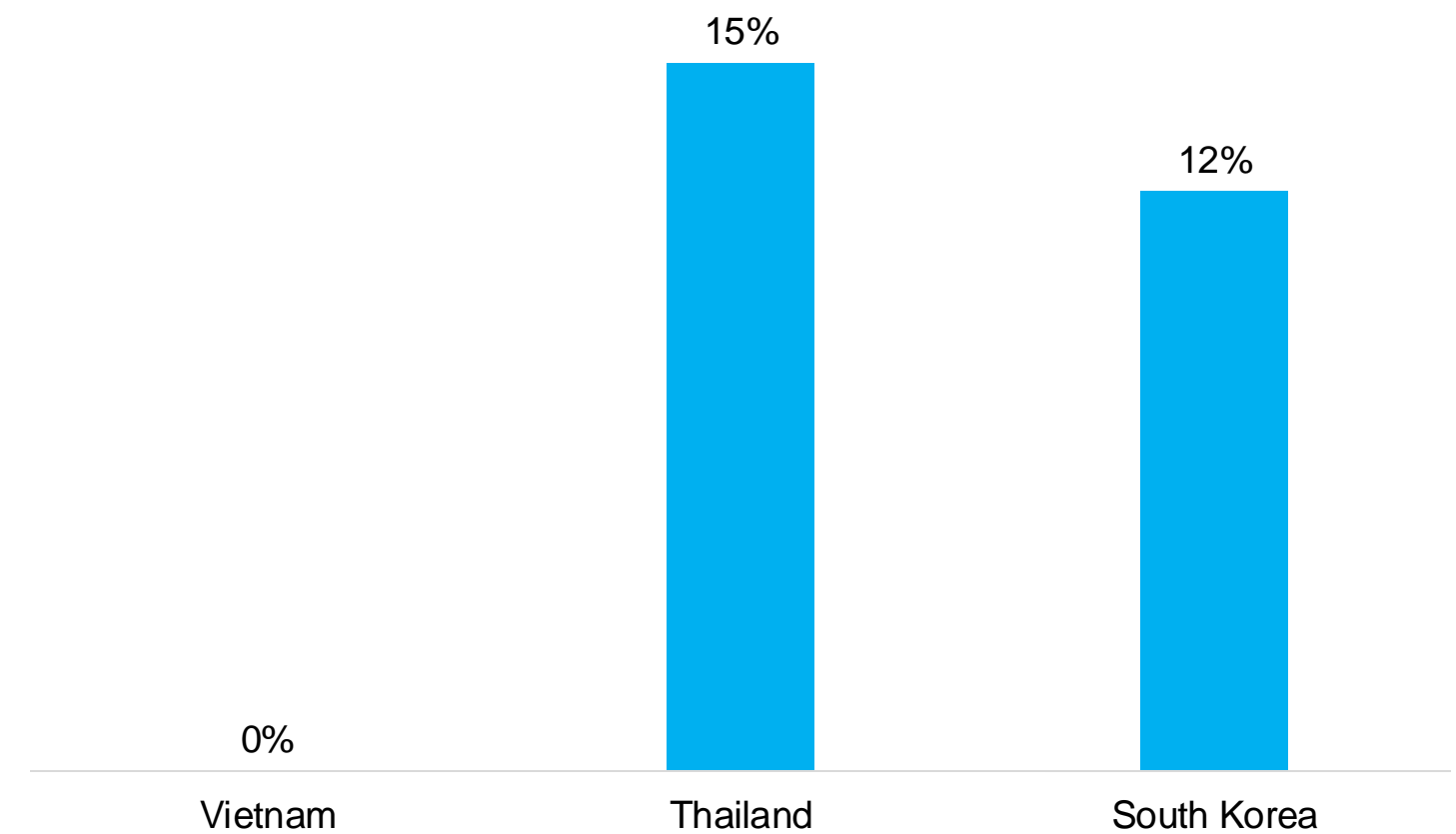
*Banks remain the primary institutional investors in Vietnam, whereas the investor structure is more diverse in other Asian countries, extending to State-owned organizations.*

**Figure 14: C-bond investor structure in some Asian countries**



Source: FiinGroup, HNX, ThaiBMA, KSEI, CCDC & ABO

**Figure 15: Ownership by State-owned Institutions in C-bond Market: Vietnam vs. Selected Peers**



Source: FiinGroup, ThaiBMA & ABO.

Note: State-owned institutions include government owned and controlled corporations and agencies which include the public pension / social security funds

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## Summary

*Substantial upside potentials to increase institutional investors' ownership in both equity and corporate bond markets, but this is not for all asset classes, and it depends on investment appetite of each investor group.*

**Table 01: Assessment of Investment Potentials in Financial Products by Each Investor Group**

	Group 1: Active Domestic and Foreign Investment Funds	Group 1.2: Domestic Investment Funds	Group 2: Insurance Companies and Insurance Investment Funds	Group 3: Commercial Banks	Group 4: Securities companies	Group 5: Vietnam Social Security and Voluntary Pension Funds
Asset Size/ AUM	<b>US\$27.5bn</b> (AUM) 31/12/2023	<b>US\$2.9bn</b> (NAV) 30/06/2024	<b>US\$36.1bn (*)</b> (Total Assets) 31/12/2023	<b>US\$8.1bn(**)</b> (AUM) 31/12/2023	<b>US\$9.3bn</b> (Proprietary Trading Book) 31/12/2023	<b>US\$49.4bn</b> (Total Assets) 31/12/2023
Potential of Allocation to Equity/ Stocks	<b>VERY HIGH</b>	<b>VERY HIGH</b>	<b>MODERATE</b>	<b>LOW</b>	<b>LOW</b>	<b>VERY HIGH</b>
Potential of Allocation to Debt Instruments/Bonds	<b>MODERATE</b>	<b>HIGH</b>	<b>VERY HIGH</b>	<b>VERY HIGH</b>	<b>HIGH</b>	<b>VERY HIGH</b>
Potential of Allocation to Valuable Papers/Money Market Instruments	<b>LOW</b>	<b>MODERATE</b>	<b>MODERATE</b>	<b>VERY HIGH</b>	<b>VERY HIGH</b>	<b>VERY LOW</b>

(\*) A portion of the total assets of the Insurance Company group, which is managed by investment funds, is already included in the Group 1.

(\*\*) It includes non-bank corporate bonds and stocks owned by commercial banks, excluding loans and other asset categories of banks.

# Policy Recommendations

*We outlined below recommendations for discussion and consideration for policy changes with a view to attract more domestic and foreign institutional investors in Vietnam Equity and Corporate Bond Markets*

## **1. For the international institutional investors: In addition to the goal of upgrading the stock market to Emerging Market status, consider accelerating the goal of improving Vietnam's sovereign credit rating.**

- ✓ International investors typically focus on allocating assets across multiple channels (not only stocks but also bonds/debt instruments) when entering a new market. Therefore, the objective should not only be to upgrade the stock market to Emerging Market classification but also to accelerate the goal of upgrading Vietnam's sovereign credit rating to an Investment grade (BBB-) by 2030. This will not only contribute to higher liquidity, but also, more importantly, attract capital from foreign institutional investors (both equity and long-term debts) for corporate growth.
- ✓ Proactively attract large international asset management institutions (such as JPMorgan, Morgan Stanley, etc.), granting them the licenses, and providing conditions for them to operate asset management services in Vietnam. This can serve as a catalyst for passive investors to follow and to allocate into Vietnam. This practice has been done in some countries (Japan, South Korea, China, Malaysia, etc.).
- ✓ Develop a variety of products suitable for the investment appetite of foreign institutional investors (through professional fund management companies), such as stocks/depository receipts without voting rights, bond payment guarantee facilities, etc.

## **2. For the domestic institutional investors: Consider relaxing regulations restricting the allocation and investments in stocks and corporate bonds.**

- ✓ Consider loosening restrictions on insurance companies investing in bonds issued for debt restructuring purposes. Currently, insurance companies are imposed with restrictions for securities investments in general, so we should consider relaxing conditions to allow investments in stocks and corporate bonds separately depending on risk-capital scale, especially for non-life insurance entities.
- ✓ Enhance the legal framework for private pension funds and regulations on asset allocation based on risk scale with reference to domestic credit ratings.
- ✓ Encourage the Vietnam Social Security (VSS) and the State Capital Investment Corporation (SCIC) to allocate a certain and appropriate proportion of their assets in corporate bonds (for example, the bonds issued by issuers with high credit ratings, or State-controlled enterprises with high credit ratings) and stocks (through the fund-of-funds model or investing in fund certificates instead of the direct stock investing or trading).
- ✓ Consider regulating the account management by independent brokers and by unlicensed investment companies as way to develop the fund management industry and for a better protection of retail investors' legal rights.



## Policy Recommendations (continued)

*We outlined below recommendations for discussion and consideration for policy changes with a view to attract more domestic and foreign institutional investors in Vietnam Equity and Corporate Bond Markets*

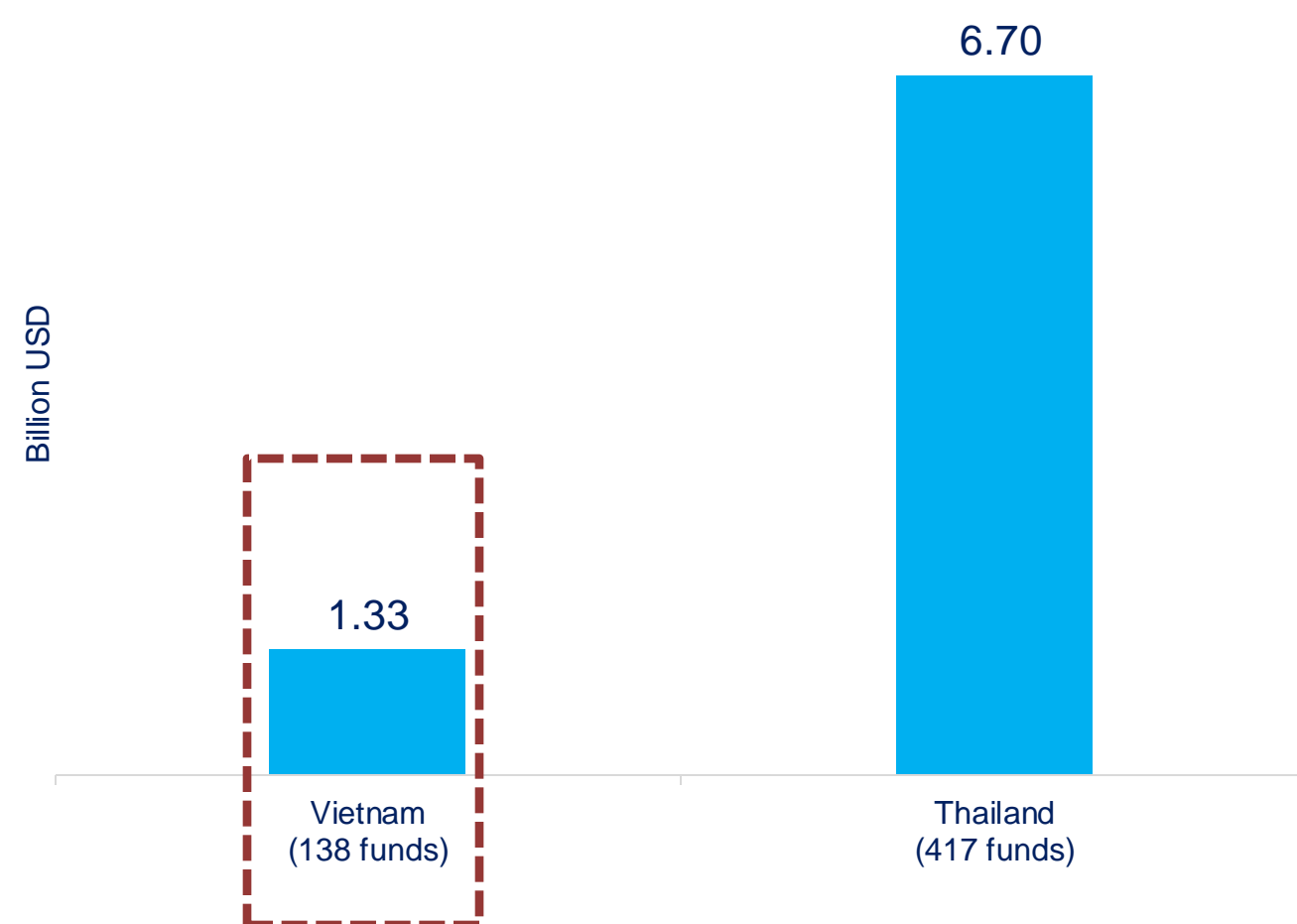
### **3. Improve the quality of goods: especially the quality of information disclosure.**

- ✓ Accelerate the reduction of State ownership in companies and sectors where the State control is unnecessary.
- ✓ Encourage companies listed on UPCoM to transfer to the stock exchanges and review to improve their listing standards to enhance corporate governance and transparency.
- ✓ Continue to further improve the quality of information disclosure, for example: (i) explain business performance fluctuations without addressing the substance; (ii) the disclose of information by corporate leaders to the public in an anonymous basis; or (iii) disseminate the information on a limited basis through certain channels but not general public.
- ✓ Consider improving the surveillance of directors' or insiders' transactions, for example, consider restricting the phenomenon of announcing an intended insider trading transaction to buy/sell but not executed them even though the market price is lower/higher than the price at the announcement date.
- ✓ For corporate bonds: consider establishing a legal framework for bond guarantee companies; continue to standardize information disclosure, strengthen credit rating adoption by issuers and investors; and improve the soft market infrastructure (yield curves, default history, etc.); amending the regulations on collateral management agencies by allowing banks and other intermediaries to legally offer this service, etc.

## A Case Study:

Mutual Funds Managed by the U.S. Securities and Exchange Commission (SEC) only Allocate a Minimal Amount to Vietnam, Presenting an Opportunity for Vietnam.

**Figure 16: Allocation of the mutual funds' investment portfolio under the supervision of the U.S. Securities and Exchange Commission (SEC).**



Source: FinGroup, compiled from the information system of the U.S. Securities and Exchange Commission (SEC).

Note: Data is updated as of June 30, 2024.

**Table 02: Top 15 mutual funds managed by the U.S. Securities and Exchange Commission (SEC) with allocations to Vietnam as of June 30, 2024.**

No	Investment fund	AUMs	Allocation to Vietnam	% of allocation to Vietnam
		Million USD	Million USD	%
<b>TOTAL</b>		<b>426,668.2</b>	<b>1,325.5</b>	<b>0.31%</b>
1	SMALLCAP WORLD FUND INC	75,065.6	120.10	0.2%
2	Bridge Builder Trust	45,326.0	1.81	0.0%
3	VANGUARD FIXED INCOME SECURITIES FUNDS	44,407.9	30.87	0.2%
4	FIDELITY INCOME FUND /MA/	39,018.0	3.90	0.0%
5	T. Rowe Price International Funds, Inc.	33,147.5	295.16	11.6%
6	DFA INVESTMENT DIMENSIONS GROUP INC	28,647.2	1.20	0.0%
7	FIDELITY SALEM STREET TRUST	23,286.4	2.33	0.0%
8	Vanguard Malvern Funds	14,578.5	17.62	0.8%
9	VANGUARD TRUSTEES' EQUITY FUND	14,154.0	113.52	1.3%
10	T. Rowe Price Real Assets Fund, Inc.	10,608.0	70.01	0.7%
11	SEI INSTITUTIONAL INVESTMENTS TRUST	10,105.9	27.10	2.4%
12	Fidelity Rutland Square Trust II	9,534.9	7.63	0.1%
13	GMO TRUST	7,855.0	39.00	5.9%
14	MFS SERIES TRUST X	6,959.9	36.19	0.5%
15	PIMCO FUNDS	5,326.2	5.26	0.2%
	<b>Other mutual funds</b>	<b>58,647.3</b>	<b>553.8</b>	<b>0.9%</b>

Source: FinGroup, compiled from the information system of the U.S. Securities and Exchange Commission (SEC).

Note: Data is updated as of June 30, 2024.

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