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Dear All,

According to a recent draft of the Law on Investment, which is due to come into effect on 1 July 2015, the foreign ownership limit for public and listed companies (as well as for securities companies and investment funds) will be subject to the Securities Law. This seems to rather neatly resolve the former impasse to raising limits created by the previous version of the Law on Investment by removing it from the equation and returning the onus to the Prime Minister.

Following a number of recent investor meetings where we have fielded questions on the potential implications of relaxed foreign-ownership limits in Vietnamese equities, we felt it worth outlining some thoughts.

The PXP View: A Four-Part Rally: Why an increase in limits is hugely positive for the market

1) Pre-Positioning: Domestic Activity

- The timeframe for increased limits will begin to overlap with the investment time-horizon of domestic investors (who are currently c.85% of daily turnover), and a belief that limits are indeed going to be increased will drive a domestic switch in investments from the "jockey-stocks" to the true blue-chip names at the foreign-ownership limits (e.g. into HCMC Securities, Vinamilk, FPT Corp, REE Corp, VN Container Shipping, etc.).
- The share price of foreign-limit stocks will move higher as domestic investors buy to position themselves ahead of relaxation.

2) Implementation: A New Wave of Foreign-Buying

- When limits are actually increased, foreigners will be able to buy stock in the market from domestic investors. Stock price appreciation will be constrained only by the daily movement limit of the respective markets (HOSE +/-7% & HNX +/- 10%). We would expect stocks such as Vinamilk (20.3% of PXP VEEF NAV) to appreciate by the maximum daily limit for at least a number of days if the current unfilled daily foreign-bid queues at local brokers are any indication, until equilibrium is reached where foreigners are willing to sell as well as buy.

3) Rebalance: ETFs Late to the Party

- The two Vietnam ETFs (VNM US & XVTD LN) will be likely to require a dramatic rebalance at the first quarterly-review following implementation of increased limits. This will now include a number of stocks that were previously at their foreign-limits and are therefore newly available for inclusion in the indices which the ETFs track. This will again involve domestic pre-positioning.

4) Long-term: Increased Breadth, Scale & Upside

- Newly increased limits would boost the appeal of Vietnam's equity markets, as well as faith in the government's ability to deliver on promised reforms, meaning that a broader market

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with more scale would generate more interest, encourage further inflows and further upside beyond the shorter-term movements around increased limits.

- Increased foreign accessibility to the stock markets in Vietnam will also be a key step in the progress of upgrade from MSCI Frontier to MSCI Emerging Market status.

Frequently Asked Questions:

- **What is the latest on Foreign-Ownership Limits?**

The current limits are set at 49% for all listed-equities, except banks which are limited to 30%. Future limits are as yet undecided, but are likely to be to 60% for all listed-equities, or to 65% (super-majority), or a total removal of the limits. A total removal of the limits is the ultimate goal. The delay thus far has been legislative, not political. Changes to the Law on Investment (effective 1 July 2015, and includes the ability for foreigners to own property in Vietnam) will again allow the Prime Minister of Vietnam to decide the foreign-ownership limits.

- **Why do limits need to be increased?**

Transparency: larger blocks of shares of foreign-limit stock are forced to trade off-market. The daily movement limits in HOSE (+/-7%) and HNX (+/- 10%) mean that foreign investors willing to pay, for example, a 20% premium for shares in FPT or Vinamilk, must do so off market with no visibility or transparency.
Facilitation: as blocks are forced to trade off-market and not by the usual method of order matching through the day, it is difficult for highly-regarded and foreign-limit stocks to move in price, which in turn means that domestic investors are uninterested in participating and the market does not reflect the true value of these stocks.

- **If foreign-limit stocks currently trade off-market at significant premia to their listed price, should you not sell FOL stock before the move to lock in the premia?**

No. We firmly believe that the potential appreciation in price of the stocks that are at their foreign-limits, should those limits be raised, is much greater than can be achieved by selling those stocks ahead of the relaxation. We will not sell down foreign-limits stocks until they reach what we consider to be at least fair value and we will continue to limit new subscriptions to match outgoing redemptions to avoid dilution of existing shareholder weightings in those stocks that we believe will participate in a four-part rally as outlined above.

- **What about the Thai-model of NVDRs (Non-Voting Depository Receipts)?**

The Thai-model of NVDRs was created to deal with the problem of premia on shares of Thai public companies on the foreign board when compared to the domestic board. With only one class of shares in Vietnam, and only one board for listings, this is not a problem that needs solving. The Thai NVDR model would create the additional problem of effectively giving the existing 49% foreign-voting block control of the company (where 49% of 100% becomes 54.4% of 90% if voting rights are taken away from 10% of the shares, and we would be faced with the senseless situation of shares

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with no voting rights attached likely to trade at a premium to those with voting rights given a transparent market in the NVDR).

- **Is there precedent for increased FOL in Vietnam?**

There is – in 2000 when the Viet Nam Index was launched foreign ownership limits were initially set at 20% for all listed equities before they were raised to 30% in 2003. There was a further raise in 2006, as one of the first significant reforms by the current Prime Minister, where limits were increased to the current level of 49%. In late 2006 foreign participation in the market was 35-40% of daily turnover compared to 10 to 15% now. We believe that the PM is fully aware how increased limits will benefit the market and the country and stands ready to relax FOL once again.

- **What will the impact of increased FOLs be on the two Vietnam ETFs?**

The initial impact on the two Vietnam ETFs is likely to be neutral to negative. As the domestic investment community gives credence to an impending relaxation of limits, retail investors will begin to buy stocks which are at their foreign-limit in anticipation of foreign-buying. This buying will be partially funded by selling stocks which are not at their limits, i.e. those that are in the ETFs (which by definition have to be large, liquid and, crucially, available to foreigners). At the next quarterly ETF rebalance following the actual implementation of increased limits, there will likely be a dramatic transition of the portfolio of the two ETFs into the stocks that have become available, providing further impetus in the prices of those stocks. So; the ETFs will not participate in the first two stages of the rally, and may in fact be the cause of the third stage of the rally as they include the newly available stocks.

As at the 29th May 2015, **PXP Vietnam Emerging Equity Fund** had **52.5% of its Net Asset Value** invested in companies which are **at the foreign-ownership limit**. It is not currently possible for a foreigner to replicate this part of the portfolio in the market.

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