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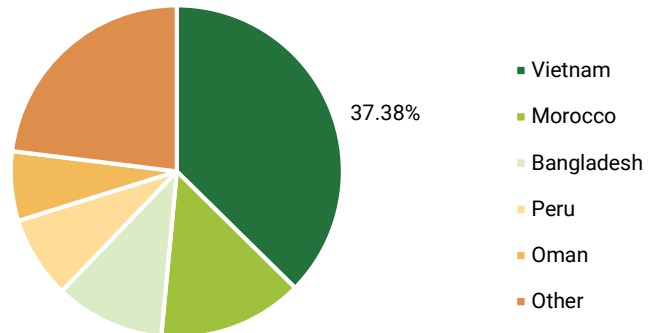
## PROSPECTS UPGRADING FOR VIETNAMESE STOCK MARKET

- The upgrade will make the Vietnamese stock market a phase of sustainable growth in the coming years in the future.
- PHS forecast Vietnam may be officially upgraded by FTSE in September 2025 review. Meanwhile, MSCI may upgrade Vietnam to Emerging Market in June 2027 review.
- Thus, we predict that around 1.41 USDbn from ETFs withdrawn to Vietnamese stock market at the effective date. Meanwhile, mutual will take action sooner at the announcement date.

### Overview of upgrading Vietnamese stock market

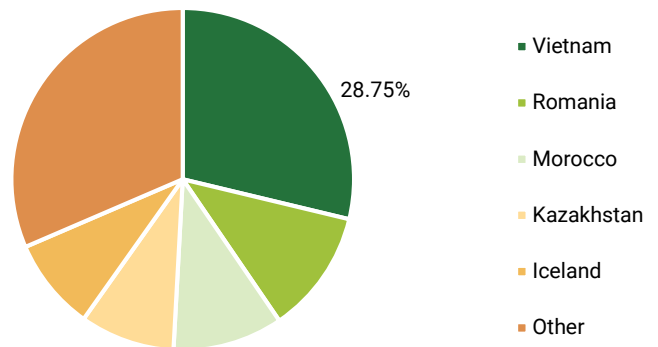
Vietnamese stock market is currently classified as a Frontier Market by both FTSE and MSCI. Vietnam's stock market is considered "a big fish in a small pond," with its capitalization and liquidity far surpassing other Frontier Markets. Vietnamese stocks have the highest weight in the FTSE and MSCI Frontier Market indices. However, Vietnam is still struggling to achieve its upgrade due to its failure to meet critical qualitative criteria, such as the openness market and the pre-funding requirement for trading.

**Figure 1: Country breakdown of FTSE Frontier Index**



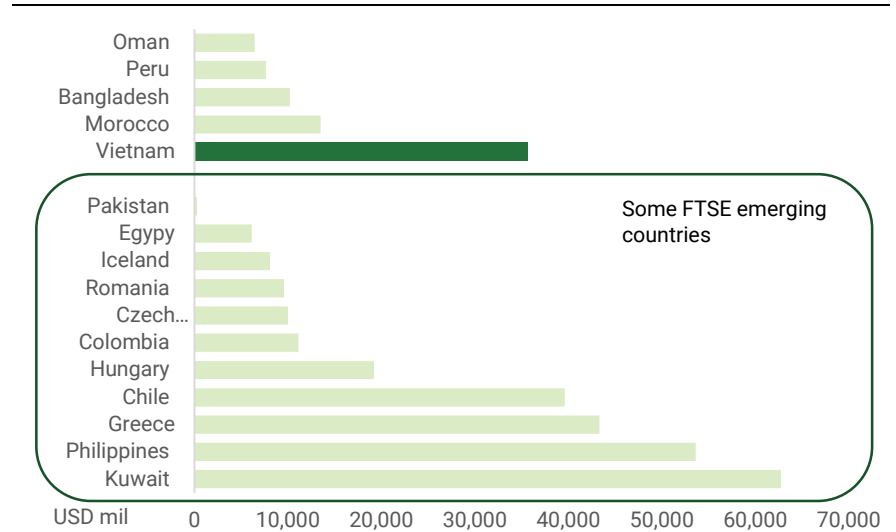
Source: FTSE Russell, PHS compiled

**Figure 2: Country breakdown of MSCI Frontier Index**



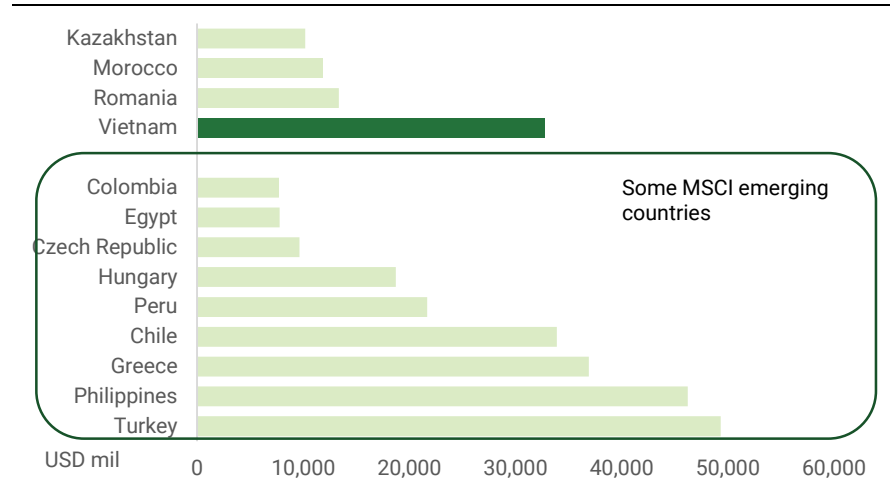
Source: MSCI, PHS compiled

**Figure 3: Vietnamese market capitalisation by FTSE approaches to emerging market group of FTSE**



Source: FTSE Russell, PHS compiled

**Figure 4: Vietnamese market capitalisation by MSCI also approaches to emerging market group of MSCI**



Source: MSCI, PHS compiled

According to PHS’s decision, reclassification is considered the critical factor for the Vietnamese stock market to enter a phase of sustainable growth, thereby fulfilling its goal of becoming an efficient capital mobilization channel. Upgrading will attract more foreign investors to the Vietnamese stock market through ETFs and mutual funds tracking emerging markets.

However, according to our observations, there is a significant difference in market index performance between being upgraded to an Emerging Market by FTSE and MSCI. With FTSE's upgrade, market indices tended to experience less volatility from announcement to official upgrade dates. The evidence is Qatar's case (09/2015-09/2016), with a drop of 8.9%, and Kuwait's case (09/2017-09/2018) with a decline of 2.2%. In contrast, with MSCI's upgrade, market indices tended to experience a strong rally. Qatar and the United Arab Emirates increased by 39% and 43%, respectively, within one year of the announcement of their upgrade. Kuwait also recorded a return of 35% nearly three years after MSCI announced its upgrade. A CFA Institute Financial Analyst Journal report also found that

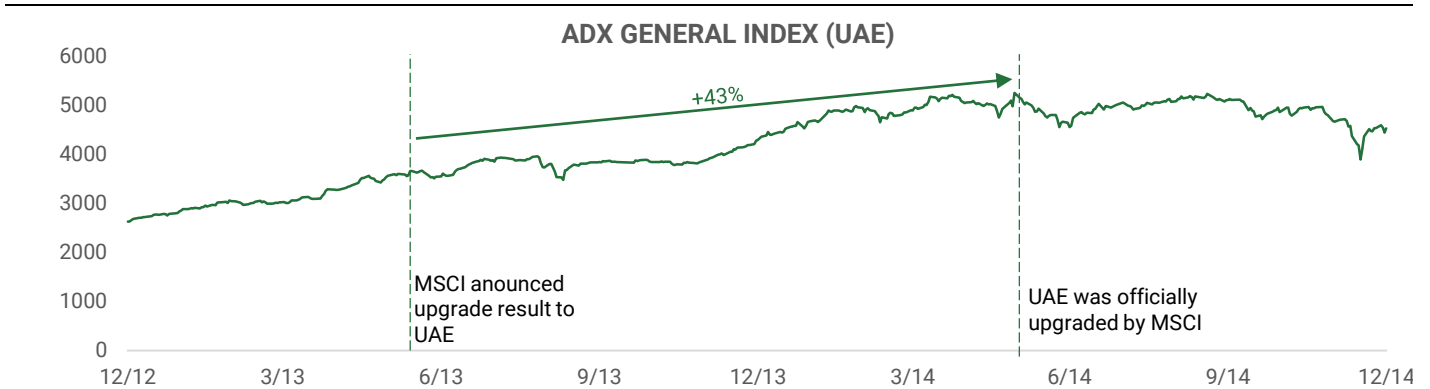
the MSCI index representing upgraded markets recorded an average increase of 23.2% from the announcement date to the effective date or when the reclassification occurred.

**Figure 5: Performance of Qatar stock market**



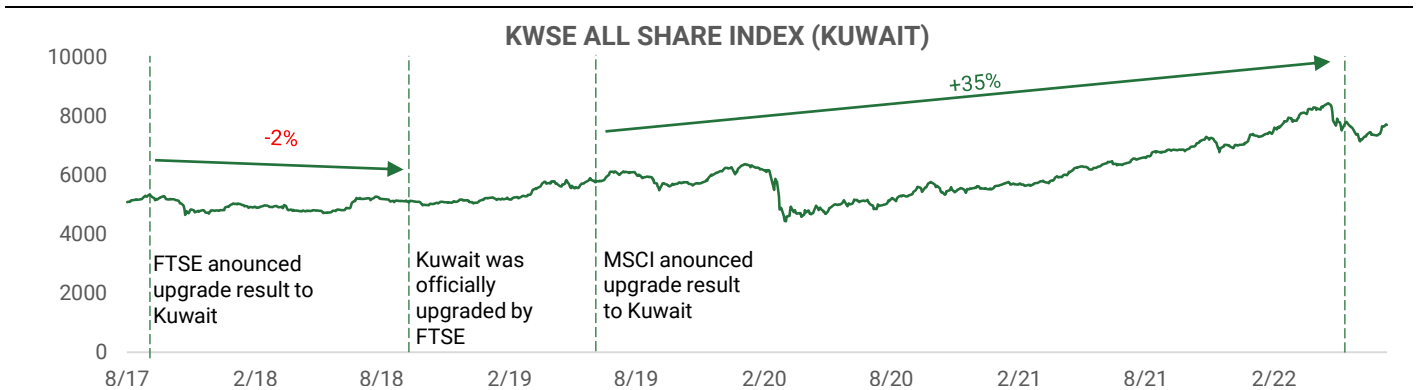
Source: Bloomberg, PHS compiled

**Figure 6: Performance of UAE stock market**



Source: Bloomberg, PHS compiled

**Figure 7: Performance of Kuwait stock market (\*)**



Source: Bloomberg, PHS compiled

(\*) Due to Covid-19's effect, The Kuwait stock market dropped significantly at the beginning of 2020. Additionally, the upgrade process of this market was also delayed compared to expectations. Therefore, we adjust from one year to three years to assess the impact of the upgrade on this market.

MSCI's Emerging Market scale is much larger than that of the FTSE Emerging Market. As a result, the capital inflow from an MSCI's upgrade will be much more. And this explains the difference in market volatility between the two cases.

## Prospect upgrade by FTSE

Vietnamese stock market was included on FTSE's watchlist for a Secondary Emerging Market upgrade in September 2018. **Vietnam has met seven upgrade criteria. The two remaining unsatisfied criteria are "Settlement Cycle (DvP)" & "Settlement – costs associated with failed trades"**. During the last review in September 2023, FTSE requested further improvements to the process for the registration of new accounts and introducing an efficient mechanism to facilitate trading between non-domestic investors in securities that have reached or are approaching their foreign ownership limit.

**Table 1: FTSE's rating to Vietnamese stock market**

Criteria	Rating
<b>Market and Regulatory Environment</b>	
Formal stock market regulatory authorities actively monitor market	Pass
No objection to or significant restrictions or penalties applied to the investment of capital or the repatriation of capital and income	Pass
<b>Foreign Exchange Market</b>	
Brokerage - Sufficient competition to ensure high quality broker services	Pass
Transaction costs - implicit and explicit costs to be reasonable and competitive	Pass
Transparency - market depth information / visibility and timely trade reporting process	Pass
<b>Clearing, Settlement and Custody</b>	
<b>Settlement - costs associated with failed trades</b>	<b>Unrated</b>
<b>Settlement Cycle (DvP)</b>	<b>Restricted</b>
Central Securities Depository	Pass
Custody-Sufficient competition to ensure high quality custodian services	Pass

*Source: FTSE Russell, PHS compiled*

Operating the KRX system is a primary requirement for solving the FTSE upgrade criteria. The State Securities Commission (SSC) has submitted a proposal to the Ministry of Finance (MOF) to amend and supplement several regulations that eliminate the 100% margin for foreign investors. A central counterparty clearing house (CCP) may be implemented after the KRX system goes live. This will fulfill the Settlement Cycle (DvP). CCP, managed by the Vietnam Securities Depository (VSDC), allows for a reduction in the pre-trade margin ratio. Instead of a 100% margin, investors only make deposits at the required level (expected to be between 10% and 20%). In some scenarios, this also causes the risk of failed trades, which provides evidence for rating the "Settlement - costs associated with failed trades" criteria.

However, according to PHS, the upgrade path may not be as soon as expected. FTSE has two major reviews per year. A formal annual review of the country classification is conducted every September. And a formal interim review is conducted every March to inform the progress of markets, which is placed on the Watch List in last September review. In a positive case, if a country has met the criteria for an upgrade, FTSE will announce the upgrade result in this March review and officially reclassify next September. And with the current condition, when KRX is still in the testing

phase, we think that Vietnam is unlikely to meet this positive case scenario. **Instead, maybe FTSE will announce the upgrade results for Vietnam in September 2024 review, and the official time of reclassification is a year later, in September 2025 review.**

## Prospect upgrade by MSCI

The criteria for MSCI are more complex than those of FTSE. **In the June 2023 review, Vietnam failed nine criteria.** In addition to central counterparty clearing house (CCP) to meet the pre-funding criteria (similar to FTSE's criteria), MSCI focuses on foreign ownership limits (FOL) and foreign investor rights. MSCI also pointed out two criteria that need improvement: registration and an English version of market regulations for timely access by foreign investors.

**Table 2: MSCI's rating to Vietnamese stock market**

Criteria	Rating
Openness to foreign ownership	
Investor qualification requirement	no issues
Foreign ownership limit (FOL) level	improvements needed
Foreign room level	improvements needed
Equal rights to foreign investors	improvements needed
Ease of capital inflows / outflows	
Capital flow restriction level	no issues
Foreign exchange market liberalization level	improvements needed
Market entry	
Investor registration & account set up	no major issues
Market organization	
Market regulations	no major issues
Information flow	improvements needed
Market infrastructure	
Clearing and Settlement	improvements needed
Custody	no issues
Registry / Depository	no issues
Trading	no issues
Transferability	improvements needed
Stock lending	improvements needed
Short selling	improvements needed
Availability of Investment Instruments	no issues
Stability of institutional framework	no major issues

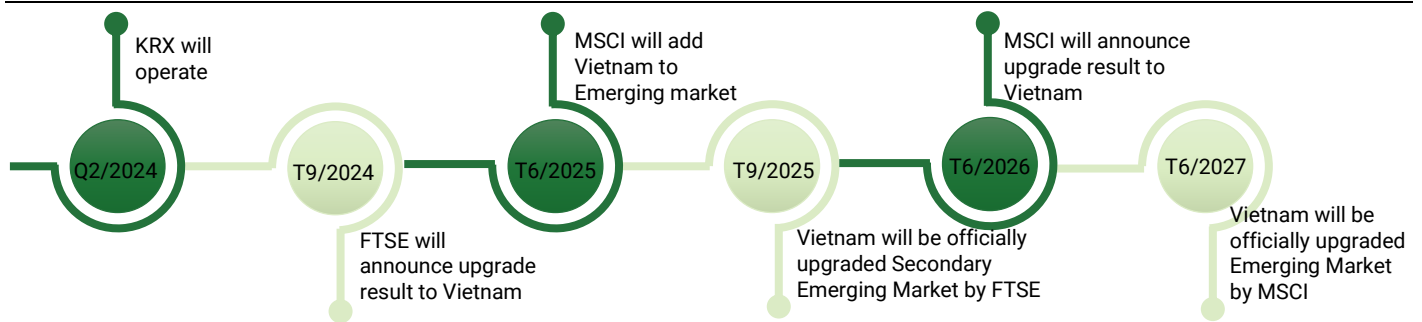
*Source: MSCI, PHS compiled*

We believe the Vietnamese stock market will need improvements in its legal framework to meet these criteria. Currently, the Ministry of Finance is seeking comments on the draft Circular to support upgrading the stock market. Four amended circulars include Circular 96/2020 (on information disclosure), Circular 119/2020 (on securities depository, clearing, and settlement), Circular 120/2020 (on securities trading), and Circular

121/2020 (on the operation of securities companies). The amendments focus on removing the 100% margin requirement for foreign investors and requiring disclosing information in English. In an optimistic scenario if the amended circulars are promptly approved this year, PHS anticipated that MSCI may consider adding Vietnam to its watchlist for an upgrade evaluation in June 2025. **Within two years after being added to the watchlist, Vietnam may be officially upgraded to MSCI's Emerging Markets, corresponding to the June 2027 review.**

## The upgrading story is expected to attract billions of USD in capital inflows into the Vietnamese stock market

Figure 8: Reclassification roadmap of Vietnamese stock market



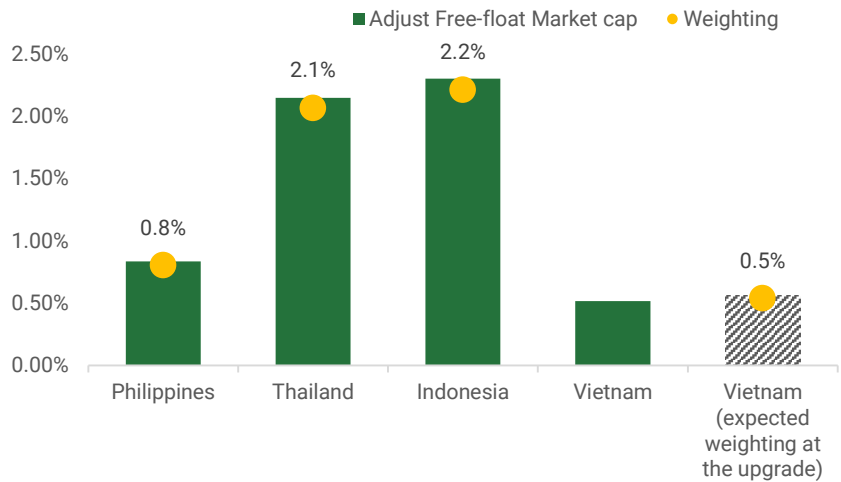
Source: PHS forecast

Passive inflow from ETF funds will be activated immediately upon Vietnam's official upgrade. Meanwhile, active funds will take action sooner, typically after announcing the upgrade results.

**According to our estimates, after FTSE officially upgrades it, Vietnamese stocks could weigh approximately 0.54% in the FTSE Emerging Index basket.** Additionally, Vietnamese stocks will also be included in various other FTSE indices that track global benchmarks such as the FTSE All-World Index, FTSE All-World ex-US Index, FTSE Global All Cap Index, FTSE Emerging Asia Pacific Index, FTSE Emerging ex-China Index, and more.

**It is around USD 583 million from ETF funds tracking these indices, which will be disbursed into the Vietnamese stock market.** ETF funds tracking the FTSE Emerging Index have total assets of around USD 96 billion, corresponding to a disbursement of approximately USD 516 million. The remaining disbursement will come from ETFs tracking the FTSE global index series.

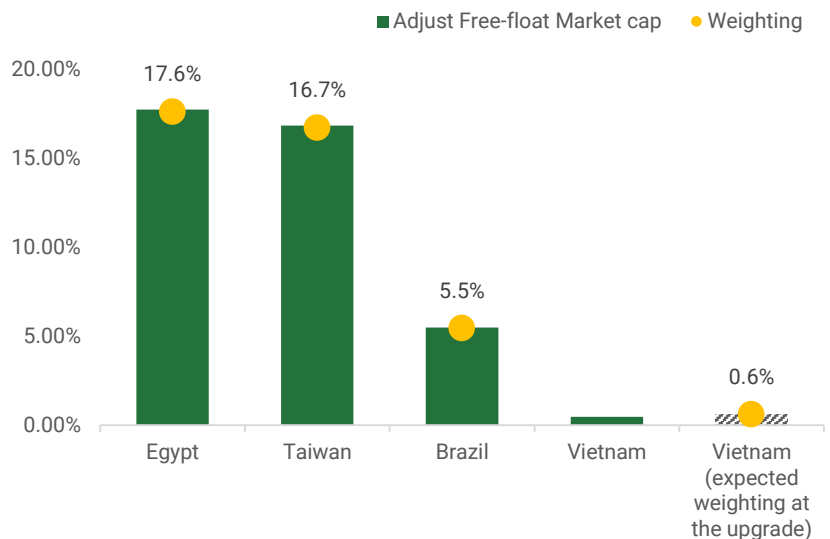
**Figure 9: Weighting of some countries in the FTSE Emerging index**



Source: FTSE Russell, PHS forecast

**With the MSCI index, the Vietnamese market could potentially weigh around 0.6% of MSCI Emerging Index at the upgrade time. According to our estimates, Vietnam could attract approximately USD 833 million from ETF funds tracking MSCI Emerging Markets Index.**

**Figure 10: Weighting of some countries in the MSCI Emerging index**



Source: MSCI, PHS forecast

**Thus, combining both phases, the Vietnamese stock market could attract approximately USD 1.41 billion from ETF funds.**

Regarding the benefits of the upgrading story, we note a crucial factor regarding foreign rooms. The FTSE and MSCI market indices stipulate that constituent stocks must have foreign room available. The minimum Foreign Ownership Limit (FOL) usually reaches 10% or higher. However, many Bluechip stocks are currently experiencing full foreign rooms. **Consequently, large-cap stocks with available FOL stand to benefit the most.** Despite this, we anticipate that regulations will soon be amended to increase the FOL to meet MSCI's upgrading criteria. Therefore, stocks currently at low FOL may also benefit once new rules are in place.

**Table 3: Forecast inflow from ETFs**

	Total asset of ETF fund (USDbn)	Inflow to Vietnamese stock market (USDbn)
<b>Top ETFs tracking FTSE Emerging Index</b>		
Vanguard FTSE Emerging Markets ETF	76.0	
Vanguard FTSE Emerging Markets UCITS ETF	2.7	
Schwab Emerging Markets Equity ETF	8.6	
Schwab Fundamental Emerging Markets Large Company Index ETF	5.6	
Invesco FTSE RAFI Emerging Markets ETF	1.2	
	<b>95.7</b>	<b>0.52</b>
<b>Top ETF tracking FTSE All-World &amp; FTSE Global All-Cap</b>		
Vanguard FTSE All-World ex-US ETF	38.6	
Vanguard FTSE All-World UCITS ETF	24.2	
Vanguard FTSE All-World High Dividend Yield UCITS ETF	4.9	
Invesco FTSE All-World UCITS ETF	0.1	
	<b>67.9</b>	<b>0.06</b>
<b>Top ETF tracking MSCI Emerging Index</b>		
IShares Core MSCI Emerging Markets ETF	76.4	
IShares MSCI Emerging Markets ETF	18.3	
IShares MSCI Emerging Markets Ex China ETF	11.1	
Xtrackers MSCI Emerging Markets UCITS ETF	5.1	
IShares MSCI Emerging Markets Min Vol Factor ETF	4.5	
	<b>138.1</b>	<b>0.83</b>
<b>Total</b>		<b>1.41</b>

Source: Bloomberg, PHS forecast

**Table 4: Top benefit stocks for upgrade story**

Ticker	Company name	Sector
HPG	Hoa Phat Group JSC	Materials
VHM	Vinhomes JSC	Real estate management and development
VIC	VinGroup JSC	Real estate management and development
VCB	Vietcombank	Banking
MSN	Masan Group Corporation	Food and beverage, tobacco
VNM	VINAMILK	Food and beverage, tobacco
SSI	SSI Securities Corporation	Financial services
DGC	Duc Giang Chemicals Group JSC	Financial services
VRE	Vincom Retail JSC	Real estate management and development
VND	VNDIRECT Securities Corporation	Financial services

Source: PHS forecast



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