

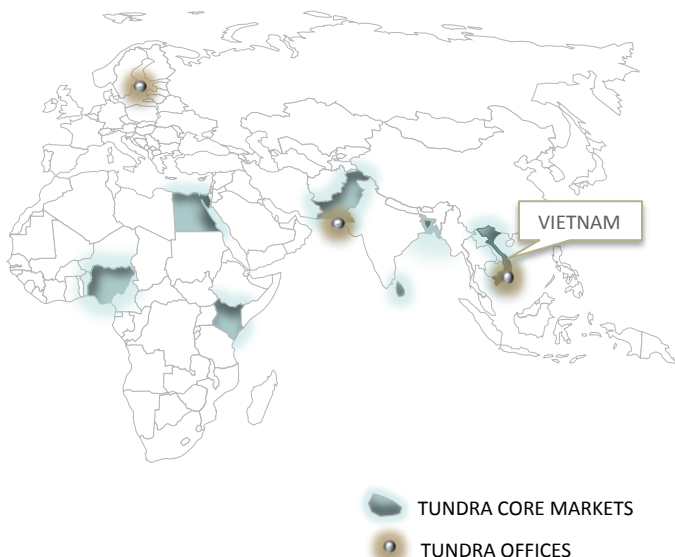
TUNDRA FOCUS



VIEWS ON ESG IN VIETNAM

INTRODUCTION

Vietnam is one of the fastest growing economies in South East Asia. The country is located in the eastern Indochina Peninsula with an area corresponding to about ¾ of Sweden, and about 7% of the country's surface consisting of water. Over the past 30 years Vietnam's development has been remarkable. Following the economic and political reforms under the Đổi Mới Policy, launched in 1986, a rapid economic growth and development transformed Vietnam from one of the world's poorest nations to a lower middle-income country. The country has favorable demographics with a total of 94 million inhabitants, where about 70% of the population is in the labour force. Unemployment rate in the country is low at 2.2%, while literacy rate is as high as 94.5%. The Vietnamese government has worked hard to transform the economy from an agriculture and natural resource dependent economy to a manufacturing and services focus over the last years. As a result, Vietnam has successfully attracted a large amount of Foreign Direct Investment (FDI) and turned into a key manufacturing hub of mobile phones and other electronics products. Several global brands such as Samsung, LG, Nokia, Intel and Canon have production factories here. 52% of the population have access to the internet and the rate is increasing rapidly. The government set GDP growth target in 2016-2020 at 6.5% per annum and plans to achieve GDP per capita of \$3 500 in 2020. Recognizing the potential of Vietnam, Tundra Fonder has decided to make it one of our key investment markets. Tundra launched a dedicated Vietnam Fund in 2014, and set up a research office in Ho Chi Minh City in early 2016. Duc Nguyen, with 10 years experience of the local equity market, was appointed country manager for the Vietnam office.



VIETNAM FACT SHEET



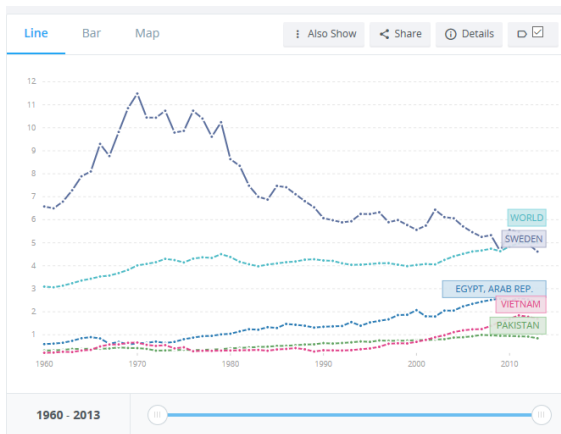
Capital: Hanoi
Population: 94 400 000
Urban population: 34%
Life expectancy at birth: 76 years (Female: 81 / Male: 71)
Area: 330 967 km² (Land 310 070 km² / Water 21 140 km²)
GDP (current): \$193 599bn (2015)
GDP per Capita: \$2 111 (2015)
Currency: VND (Vietnamese Dong)
Official Language: Vietnamese
Ruling Party: The Communist Party of Vietnam
Access to Improved drinking water: 97.6%
Access to Improved Sanitation: 81.4%
Adult Literacy Rate (2015): 94.5% (F 92.8% / M: 96.3%)
CO2 Emissions (metric tons/capita): 1.7 (2013)
Labour Force Participation Rate: 80% (F:74% / M: 84%)
Maternal mortality (2015 est.): 54 deaths/100,000 live births
Total fertility rate: 1.96 births per woman
Under-5 mortality (2015 est.): 22 deaths/1,000 live births
Road safety: 24.5 deaths/100 000
Helmet wearing law: Yes (96% drivers/83% passengers)

Sources: World Bank, UNDP HDIs, CIA World Factbook, International Data Base (IDB), IMF, WaterAid, WHO

VIETNAM'S ENVIRONMENTAL PROFILE

Vietnam is in the lower range (136/178) on the Environmental Performance Index [1]. The main factors contributing to its relatively low rating is poor air quality and challenges with water. Vietnam is one of the countries in the world expected to be most affected by rising sea levels. With 70% of the population living in coastal areas and low-lying deltas, floods will constitute a large-scale challenge. A city-level analysis of Ho Chi Minh City shows that slum areas will be especially affected. Actions for flood management, and strategies to reduce vulnerability are planned [2]. The Mekong Greater region, stretching over China, Burma, Laos, Thailand, Cambodia and the south of Vietnam, contains some of the most biologically diverse habitats in the world. The Mekong Delta (south of Vietnam) is home to more than 17 million people that have relied on the surroundings for generations to support their families. The Mekong Delta, often referred to as Vietnam's rice bowl, plays an important role in the national agricultural production. Rising sea water caused by global warming is now increasing the salt content of the Mekong river, and thereby threatening the livelihoods of millions of poor farmers, fishermen and rice producers [3]. High population density affects the environment all over the country, in the Northern parts of Vietnam, only 10% of native lowland vegetation remains [4]. Further, water pollution is a grave concern in the country. Due to a weak infrastructure and industry-driven pollution, fresh water is becoming a scarce resource. The agriculture sector majorly contributes to the problem by improperly disposing 73 million tons of livestock waste into water channels and lands [5].

It is reported that around 500 000 m³ of sewage water is released every day in the Ho Chi Minh City's Tham Luong industrial zone. As a direct consequence of this, around 37 villages – where rivers and fields serve as garbage dumps and turn into breeding grounds for deadly diseases – have been labeled 'cancer villages'. In 2016, several coastal provinces witnessed thousands of dead fish, shrimps and clams amounting to 30 tons and a loss of \$200 000 within a week. In a further shocking incident, a whale was found dead on Hue Province's shores which raised a massive hue and cry amongst the citizens [6]. The government is trying to counter the problems as evidenced by the number of studies conducted to understand the problem. In the face of growing public concern, the government has demanded environmental assessment impact reports to be updated from 2 000 under-construction projects. The steel company allegedly responsible for the mass fish death, *Formosa Ha Tinh Steel Corp*, has promised to give \$500 million to cover clean up of the surroundings and compensation for those affected.



Carbon dioxide (CO₂) emissions in metric tons per capita between years 1960-2013 for Vietnam, Pakistan, Egypt, Sweden, and World. **Source:** World Bank Open Data

Greenhouse gases are known to trap heat in the atmosphere resulting in global warming. Carbon dioxide is produced when fossil fuels (coal, natural gas and oil) are burnt and constitutes over 80% of these gases. The other main greenhouse gases are methane (CH₄), nitrogen dioxide oxide (NO₂) and different fluorinated gases. As demonstrated in the figure above countries like Vietnam (1.7), Pakistan (0.8) or Egypt (2.4) are low on carbon dioxide emissions as compared to Sweden (4.6) or the global average (5.0). A four-year study conducted by the country's environment ministry found that the air quality in Hanoi, Ho Chi Minh City and Ha Long have worsened dramatically during the past few years. Levels of nitrogen dioxide, known as very harmful to humans and environment, exceeds the permitted values by far [7]. Road safety is a problem in Vietnam; WHO estimates that traffic injuries are the leading cause of death among those aged 15-29 years, and motorcyclists

account for a high proportion of accidents. Vietnam is included in a project lead by WHO and the National Safety Committee, with the objective to strengthen national road safety. Primary focus for interventions are prevention of drink-driving, enhanced enforcement and increased helmet wearing among child passengers. Given the high growth in emerging economies future levels of emissions are likely to increase further. Renewable energy can provide solutions where frontier markets can avoid following the developmental path of Western countries in emissions. Several initiatives on renewable energy is underway in Vietnam. In 2013 the Government of Vietnam and the World Bank's Carbon Partnership Facility (CPF) signed an agreement aiming to launch a carbon finance program that will help the country's national grid in a commercially sustainable way [8]. The Vietnamese government is allocating large amounts on a yearly basis to address climate change issues.

UNIQUE INSIGHT



"Vietnam is making headway in various development indicators, which includes a range of economic, social and governance goals. The best way to experience this thrilling situation on the ground is by visiting the country."

– **Imran Patel**, Senior Financial Analyst

INSIDER PERSPECTIVE

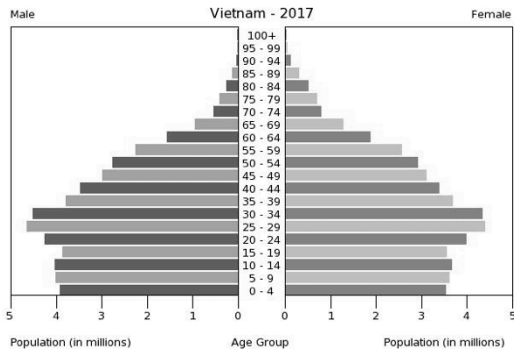


"Vietnam is a popular country in South East Asia, located in the eastern Indochina Peninsula. To the north of Vietnam is China, to the west is Laos and Cambodia, to the east is the Gulf of Tonkin and East Asia and to the south is the Thailand Gulf. The land is a centre of trading, cultural interaction with China and other countries in the area. Having a tropical climate, Vietnam is famous for its magnificent scenery, from sandy beaches to majestic mountains and a rich river delta. Although Vietnam was seriously damaged after the war, the country is following an open approach to the world economy, which helped it to quickly recover and achieve one of the highest GDP growth in the last 30 years. Vietnam is now moving towards status of a developing country, backed by favourable demographics. Out of the 94 million people in the country, where a large proportion is labourers. Literacy rate is high and 52% of the population has access to the internet. Urbanization rate is low at 32% but quickly expanding with 3% added per year. Vietnam's demographics are set for high economic growth in the years to come. "

– **Duc Nguyen**, Advisor

GENDER EQUALITY

Vietnamese men and women are seen to be sharing the responsibility of being breadwinners. Women make up a large part of the Vietnamese work force; around 72% of females work, and they are active across most sectors and industries. Having said that, however, women are also expected to tend to their homes and families, which is generally viewed as their primary responsibility [9]. In the private sector, many companies have women in executive roles at different levels.



Vietnam's population pyramid illustrating the age and sex structure of the population. Source: International Data Base.

One of these is the manager of one of Saigon General Service's Ford showrooms, Luc Thi Le Thao. During our visit, Luc spoke about the different environmental and social initiatives taken for their particular showroom. Many adverts displaying environment friendly engines were seen at the showroom. When asked, she told us that while environment-friendly cars were available and government mandated, the demand for them was weak as the comparatively higher price range was a concern for the average buyer. Certain policies were in place for cutting down energy in the showrooms where air conditioners were used only when necessary. Internal trainings for sensitivity awareness were carried out as and when issues arose.



Top: The Tundra team with Saigon Ford's Manager, Luc Thi Le Thao. Below: Advertisement for Eco Boost engine. Photos: Tundra



A poster for a Vietnamese airline displaying a gender equal crew. Photo: Tundra

HUMAN RIGHTS IN VIETNAM

The Human Rights Watch, a non-profit, non-governmental organization consisting of human rights professionals worldwide, states that basic human rights such as freedom of speech are routinely infringed in this state-controlled country. In Vietnam, independent political parties, labour unions, and human rights organizations are banned. Authorities require approval from official departments for public gatherings and will not grant permission for meetings, marches, or protests if they are perceived as political. Vaguely worded penal codes such as “undermining national unity”, “conducting propaganda against the state” and “abusing the rights to democracy and freedom to infringe upon the interests of the state” are used. During the first nine months of 2016, at least 19 bloggers and activists were put on trial and convicted, while yet others are held without trial [10]. Journalists and activists face appalling treatment in the form of harassment, assault and even imprisonment. The police employ physical assaults to extract confessions while the justice system lacks independence. According to a 2014 report by the International Labour Organization, Vietnam has around 1.75 million child labourers [11]. Most of these work in the agricultural sector and are usually unpaid family workers. The 2016 report on trafficking in persons [12] describes Vietnam as a source country and, to a lesser extent, a destination, for men, women, and children subjected to sex trafficking and forced labour. According to United Nations Inter-Agency Project on Human Trafficking (UNIAP) the major trafficking trends in Vietnam include females being trafficked to other countries in the region (to China mainly for marriage; to Singapore, South Korea or Taiwan for marriage with conditions described as domestic slavery, or to Cambodia, Thailand, Lao PDR or Thailand for sexual exploitation). Others are trafficked to other parts of the world subjected to forced labour and debt bondage. Internal trafficking occurs in most provinces; an increasing number of children and women are trafficked into urban areas following demands from sex tourism. Out of the ILO fundamental conventions Vietnam still has not ratified the following: *Freedom of Association and Protection of the the Right to Organise Convention, 1948 (No 87)*, *Right to Organise and Collective Bargaining Convention, 1949 (No 98)* and *Abolition of Forced Labour Convention, 1957 (No. 105)* [13].

TUNDRA INVITED SPEAKER AT HOSE SUSTAINABLE INDEX LAUNCH

A report on responsible investments in Vietnam concludes that ESG frameworks in the country are solid, characterized by comprehensive regulatory frameworks whilst the enforcement is still weak. Positive drivers of sustainability performance and disclosure such as increasing media coverage, investment banking and NGO reporting on issues like climate change, energy efficiency, labour conditions and corruption have had an impact over the last years [14]. Sustainability is an important and necessary tool for development, especially in frontier markets. In the coming months 21 stock exchanges in the world aim to introduce sustainable standards through their indices [15]. These efforts are in addition to 17 exchanges that currently recommend listed companies to report on environmental, social and governance issues. The peer-to-peer platform Sustainability Stock Exchanges (SSE) initiative promotes ESG disclosure and includes more than 70% of listed equity markets. The initiative gathers networks of international investors and different sections of the UN [16].

On 23rd March 2017, the Ho Chi Minh Stock Exchange (HOSE) – the largest stock exchange in Vietnam – announced the initiation of a sustainable index which promotes ESG standards for its companies. The Vietnam Sustainable Index, will be based on GRI standards and on the principles of corporate governance as listed by the OECD. HOSE’s representative explained that the companies will be screened and ranked by the end of July 2017. Sustainability questionnaires where companies are requested to provide information were sent in April 2017. If responses to the questionnaire are unclear or insufficient, the company will be required to complete with additional information. Once the information has been received, the scoring will take place.

Tundra, representing the asset management industry were invited to speak at the conference. During his address, Tundra’s CEO Jon Scheiber explained the basic principles of ESG and stressed the importance of sustainability to the foreign investor. A fact that can be gauged by several global examples. Accordingly, 30% of investments in the United States of America apply certain standards of sustainability. In Australia, this number is almost 50% while in Europe, 59% of investments are sustainable in one way or another. During a panel discussion, seasoned analysts supported the significance of sustainable initiatives because they have realized that “big profit does not reflect everything”. A partner at PWC was pleased at the progress made in the country. He recounted a time seven years ago when companies did not know the meaning of ‘sustainability’ and were only interested in profit. Globally, Vietnam has long been seen as an exciting opportunity for investment. After this sustainable move by the HOSE, foreign investors are likely to be even more attracted to this market.



The audience at the HOSE Conference. Tundra’s CEO presenting. Panel discussion on the realities and possibilities of sustainable investment in Vietnam **Photos:** Tundra

GOVERNANCE ISSUES

Transparency in business dealings remains a challenge for Vietnam. Sectors such as transport, information communication and technology, water, are tangled in controversy [17]. In recent years there have been reports of villagers in the northern highlands of the country who do not have access to proper bridges. In lieu of these, the villagers build makeshift bridges or innovate other, dangerous ways – one shocking video showed students and teachers being put inside plastic bags and then being pulled by local swimmers – of crossing to the other side [18]. Since then, funds have allegedly been earmarked for building bridges in remote areas. According to businesses, regulations are changed without prior notice and without any transparency while giving gifts to public and/or ‘facilitation’ payments to officials is considered the norm; nepotism or cronyism is also problematic – most appointments to the police and judiciary administration sectors are given on close personal associations rather than merit [19, 20]. However, anti-corruption efforts have been steadily improving over the past few years in the shape of new reforms and legislation. Strong implementation of these is now required to combat the problem.



The 60 meter long and 10 meter high bridge was built by locals so that children in the Khan Doi village (Tom Duong District) can reach their school. **Photo:** Thanh Nien News

COMPANY VISIT

In order to aid the corporate sector in Vietnam, it is imperative to understand the general trends in the country concerning aspects of sustainability. A dialogue was initiated with *Better Work*, a partnership program between the UN and the World Bank Group that aims to improve the working conditions in Vietnam's apparel industry. With a presence in around 450 garment and footwear factories, the programme assesses factory conditions, working time, compensation, occupational safety and health, contracts, discrimination, child labour, forced labour and freedom of association. Other important criteria that is looked into is workplace dialogue and management systems. These are evaluated against Vietnamese law and international labour standards set by the International Labour Organization. As evidenced, the concept of complying with good social and sustainable business is still not the de facto culture within the country. Further, companies that seek guidance or work towards better labour conditions are usually the ones with international buyers who are sensitive to their brand and reputation.



Tundra in a discussion with the site manager and DXG's representative.

Tundra's ESG team visited Dat Xanh Group's (DXG) construction site of residential apartment blocks in Ho Chi Minh City to inspect working conditions. We found that DXG employs a construction company to run things smoothly. Checks at regular intervals are made by DXG to assess that no violations are being made; in case of a violation the construction company is fined. The 300+ workers go through regular trainings for health and safety precautions. The workers on the site are provided with a make-shift canteen and rest area to have food and socialize while off duty. According to the company, the workforce on this particular project is expected to grow to about 800 by the end of the project.



The Dat Xanh Group construction site.



Training in session.

UNIQUE INSIGHT



"Although Vietnam faces challenges in all aspects of E, S and G - the possibilities for positive change are multiple. Currently over 90% of the workforce is literate. 98% of children in primary school age go to school; both girls and boys. As compared to other countries with similar social and economic conditions, the achievements within education are impressive. Demands from foreign investors will further enhance the importance of adhering to international guidelines and conventions in human rights, labour, environment and anti-corruption. These factors, among others, are crucial for a sustainable development in the country and for the Vietnamese people."

— Jennie C Ahrén, Head of ESG



Cafeteria.

All Photos: Tundra

VIETNAMESE COFFEE

It may come as a surprise to learn that Vietnam is the second largest coffee producer in the world, after Brazil. Coffee is one of the world's most traded agricultural commodities and constitutes a major source of foreign revenue for developing countries like Vietnam. **Trung Nguyen**, sometimes referred to as the Starbucks of Vietnam, is the largest domestic coffee brand. Vietnamese coffee [*ca'phe*] is strong and flavourful, prepared with a drip filter placed on top of the cup. Locals often drink the coffee with condensed milk, a habit introduced by the French in times when fresh milk was not always easy to find. In later years larger coffee chains such as **Starbucks** and modern coffee shops are opening up in the country. Vietnam is well known for the **Kopi Luwak**, often referred to as the most expensive coffee in the world. The unique feature of this coffee is the uncommon method of production; the coffee beans are digested by a cat-like animal called *palm civet* or *civet cat*. The faeces of the animal is collected, cleaned and sold as Kopi Luwak. The most exclusive version of this coffee is



Modern Coffee Shop in Ho Chi Minh City), Phin filter, Civet cat with coffee beans.
Photos: Tundra, Vietnamesisktkaffe.se, The Guardian.

sold at 60 times the price of regular coffee. Naturally produced Kopi Luwak is harmless to the animals, but the high demand has resulted in a high prevalence of caged animals with horrifying conditions. The coffee industry gathers several sustainability initiatives worldwide, providing platforms that include farmers. In Vietnam the production of certified coffees has scaled up during the last couple of years. More sustainable farming could increase coffee farmers' incomes substantially - key opportunities are described as optimizing fertilizer practices, conserving water and reducing irrigation.

For more info on coffee:

- Kang Manul & Rudi, S. (2012). Don't Buy Kopi Luwak Coffee Before You Read This Book - How To Find The Real One. Kindle Edition. Amazon
- Samper, LF., Quiñones-Ruiz, XF. (2107). Towards a balanced sustainability vision for the coffee industry. *Resources 2017*, 6(2). <http://www.mdpi.com/2079-9276/6/2/17/htm>
- <http://www.most-expensive.coffee>
- <https://www.lonelyplanet.com/vietnam/travel-tips-and-articles/a-guide-to-vietnamese-coffee>
- <http://www.economist.com/blogs/prospero/2012/01/coffee-vietnam>

To buy Vietnamese coffee and coffee filters in Sweden: <https://vietnamesisktkaffe.se/>

PORTFOLIO MANAGER'S PERSPECTIVE



"Vietnam is one of the breakout nations in Asia Frontier space, with 94 million people an average age of 28.5 years and over 6% GDP growth. As Vietnam is in a process of signing Free Trade Agreements (FTA) with major export markets in the world (ASEAN, Europe and Russia already done), it should lead to very strong growth in multiple areas of the economy including boosted FDI, increasing income levels, infrastructure development and consumer spending. Despite structural issues prevailing in the stock market (such as FOL, strict trading rules etc), the Vietnamese stock market is one of the most liquid markets in the frontier markets. The government's drive towards privatizing state owned entities would lead to a more active, efficient and competitive economy. Vietnam is actively working with the MSCI to remove all obstacles for it to be included in MSCI Emerging Market Index. Provided all steps are taken timely, Vietnam has a strong chance of being upgraded in the coming years; this should result in re-rating of a market that is already trading at a relatively low valuation of PE 13."

– **Shamoon Tariq**, Vice CIO & Partner

UNIQUE INSIGHTS



"Vietnam is increasingly becoming one of the top tourist destinations in the world and it's easy to see why. Whether it's cruising along the country's rich bays and islands, or visiting its historic and cultural heritage sites, or simply the stunning food, there's something for everyone. According to the Ministry of Culture, Sports & Tourism, there have been an estimated 3.2 million international visitors in the first three months of 2017 alone; an increase of 29% compared to the same period last year."

– **Maryam Mughal**, Senior ESG Analyst



"Vietnam is going through a very exciting period in history, both from an economic and investment perspective as well as from an ESG perspective. For Tundra this will remain a core market for many years to come."

– **Jon Scheiber**, CEO

SUMMARY

Vietnam is one of the fastest growing economies in South East Asia. The country has implemented comprehensive regulatory frameworks for ESG issues, but the implementation remains weak. Vietnam is facing several challenges when it comes to environmental aspects; mainly expressed as air pollution, waste water problems, deforestations and risk of floods. The Vietnamese government allocates resources to address climate change issues. Vietnam has still not ratified all of the ILO fundamental conventions. Challenges in the area of human rights, trafficking and corruption within the country remains. However, anti-corruption efforts have been steadily improving over the past few years in the shape of new reforms and legislation. The launch of a sustainable index, promoting ESG standards for all listed companies, is another step forward. The private sector is an important collaborator in order to achieve the UN Sustainable Developmental Goals.



Left: Dinner in Vietnam; Phở - chicken/noodle soup with fresh vegetables. **Right:** The Mekong Delta. **Photos:** Tundra, WWF.

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