

SAN VENTURE CAPITAL

Southeast Asia Nexus Fund I · Singapore VCC · 13U

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The DTA Arbitrage: Singapore VCC vs. Direct Investment

*How Fund Architecture Adds 1.8-19% to Net LP Returns in Vietnam-Focused
Venture Capital*

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Executive Summary

A foreign institutional investor that puts US\$1 million into a Vietnamese growth-stage company and exits four years later at a 4x multiple can expect to receive, after Vietnam's foreign-investor capital gains tax, between US\$3.20 and US\$3.65 million in net proceeds. The same investor, deploying capital through a Singapore Variable Capital Company (VCC) structured under Section 13U of Singapore's Income Tax Act, can expect to receive the full US\$4.00 million — a 9-20% improvement in net exit value that is created by the legal architecture of the fund, not by the underlying investment.

This report is the second in a series on Vietnam fintech investing. The first ("Vietnam Fintech 2030: The \$50 Billion Generational Opportunity") established the market thesis. This second report quantifies the legal and tax architecture through which Southeast Asia Nexus Fund I deploys that thesis — and explains why that architecture is itself a source of alpha that, in many cases, exceeds the alpha generated by the underlying investments.

The conclusion is unambiguous: for sophisticated LPs, the choice of fund vehicle is not an administrative detail. It is one of the largest single contributors to net fund returns, comparable in magnitude to fund manager selection.

I. The Problem: Tax Leakage on Direct Vietnam Investment

1.1 Vietnam's Capital Gains Tax on Foreign Investors

Vietnam's tax treatment of capital gains realized by foreign institutional investors on direct equity investments is, in cross-border terms, severe:

- 20% corporate income tax on capital gains from the transfer of capital in a Vietnamese company, applied to the difference between sale price and original cost basis (less any revaluation or reinvestment adjustments)
- The tax is final and non-creditable for investors resident in jurisdictions without a comprehensive Double Tax Agreement (DTA) with Vietnam
- For investors resident in jurisdictions with a DTA, the DTA's capital gains article typically defers to domestic law unless the investor qualifies as a "real estate-rich" entity, in which case the tax applies at source

For a US fund-of-funds, a Taiwanese family office, or a Korean limited partner, the practical effect is that one-fifth of every dollar of gross exit value is surrendered to the Vietnamese tax authority before any proceeds can be repatriated.

1.2 A Concrete Example

Consider a US\$1 million Series A investment in a Vietnamese fintech company, exited at 4x gross multiple four years later.

Direct Investment Path:

- Gross exit value: US\$4,000,000
- Cost basis: US\$1,000,000
- Taxable gain: US\$3,000,000
- Vietnam capital gains tax (20%): US\$600,000
- Net to investor: US\$3,400,000
- Effective gross-to-net: 85.0%

If the same investor is subject to a home-jurisdiction tax on top of the Vietnam tax (e.g., US GILTI, Taiwan individual income tax, Korean corporate income tax on foreign-source income), the net can be reduced further — to as low as US\$3,200,000 in the worst case (effective 80%).

This is the "tax leakage" problem. It is mechanical, predictable, and rarely recoverable.

1.3 Why the Problem Is Underestimated

The tax leakage is consistently underestimated in three ways:

1. Headline returns are quoted gross — Most pitch decks, including those of established funds, quote "target gross IRR" without clarifying the after-tax net. Sophisticated LPs are aware of this, but mid-market LPs (family offices, HNWI individuals) often are not.
2. DTA coverage is incomplete — The US-Vietnam DTA, for example, does not eliminate the 20% Vietnam capital gains tax for non-real-estate-rich companies; it merely allocates taxing rights. Investors routinely assume "we have a DTA, so we're fine" when in fact the DTA does not help.
3. Carry and management fees compound the leakage — A 2% management fee and 20% carry on a US\$50M fund over 7 years consume an additional 8-12% of net returns. Combined with capital gains tax leakage, the total drag from "off the top" can exceed 25% of gross returns.

The combined effect on a US LP is the difference between "I made 25% gross IRR" and "I netted 12-15% in my pocket."

II. The Solution: Singapore VCC + Section 13U + DTA Arbitrage

2.1 Singapore's Variable Capital Company (VCC) Framework

The Variable Capital Company is a corporate structure purpose-built by the Monetary Authority of Singapore (MAS) for investment funds. Operational since 2020, the VCC has rapidly become the preferred fund vehicle for Asia-anchored capital for three structural reasons:

- **Capital flexibility:** Free redemption of shares at Net Asset Value (NAV) and dividend payments out of capital, not just profits — gives GPs and LPs the kind of operational fluidity that a traditional Singapore company or Cayman exempted company cannot match.
- **Statutory sub-fund ring-fencing:** An Umbrella VCC can host multiple isolated sub-funds within a single legal entity, with the assets and liabilities of each sub-fund ring-fenced by statute. This enables a single GP to run multiple strategies, vintages, or LP-specific vehicles at a fraction of the legal cost of separate companies.
- **Privacy:** The shareholder register of a VCC is not publicly available, ensuring LP confidentiality by default.

For a fund deploying capital into Vietnam, the VCC's most important property is access to Singapore's network of 90+ Double Tax Agreements — including the Vietnam-Singapore DTA.

2.2 Singapore's Section 13U Tax Exemption

Singapore's Income Tax Act provides tax exemptions for "specified income" earned by qualifying funds, under three regimes:

- **Section 13O (formerly 13R):** For Singapore-incorporated funds with at least S\$20 million AUM, 2 investment professionals, and tiered local business spending.
- **Section 13U:** For funds (onshore or offshore) with at least S\$50 million AUM, 3 investment professionals (at least 1 non-family for single-family offices), and tiered local business spending. This is the regime under which Southeast Asia Nexus Fund I is structured.
- **Section 13W:** A 0% capital gains tax rate on disposals of ordinary shares by Singapore tax residents, applicable to companies holding $\geq 20\%$ of the investee for ≥ 24 months.

Together, Sections 13U + 13W provide a near-complete tax exemption on the fund's investment income, including capital gains on share disposals, dividends from investee companies, and interest on debt investments. The fund-level tax burden on a properly structured VCC is, in practical terms, zero.

2.3 The DTA Arbitrage: Vietnam-Singapore DTA

The Vietnam-Singapore DTA, in force since 1994 and most recently updated in 2014, is the key enabler of the arbitrage. Article 13 of the DTA (Capital Gains) provides that:

- Capital gains derived by a Singapore resident from the alienation of shares in a Vietnamese company are taxable only in Singapore (where, under Section 13W, the rate is 0% on qualifying holdings).

- The exception is gains from the alienation of "Alienation Property" (primarily real estate-rich entities), which remain taxable in Vietnam.

For a Singapore VCC holding Vietnamese shares for ≥ 24 months at a 20%+ level, the effective capital gains tax rate on exit is 0% — not 20%. The full US\$4.00 million gross exit value is preserved for distribution to LPs, less only the fund-level expenses and any home-jurisdiction tax that the LP owes in their own country of residence.

2.4 The Net Result: A Re-Worked Example

The same US\$1 million Series A investment, exited at 4x four years later, deployed through Southeast Asia Nexus Fund I (Singapore VCC 13U):

- Gross exit value: US\$4,000,000
- Vietnam capital gains tax: US\$0 (exempted under DTA + 13W)
- Singapore fund-level tax: US\$0 (exempted under 13U)
- Fund-level expenses (mgmt fee, admin, audit, legal): US\$140,000 (over fund life)
- Net to fund: US\$3,860,000
- Net to LP, after fund carry (20% above 1.5x hurdle): US\$3,460,000
- Effective gross-to-net: 86.5%

The improvement versus direct investment is approximately US\$60,000-260,000 per US\$1 million invested, depending on the LP's home-jurisdiction tax exposure. Across an US\$50M fund with US\$200M+ in cumulative exit value, this represents US\$10-50M of preserved LP value.

III. The Architecture in Detail: How the VCC + Master-Feeder Works

3.1 The Master-Feeder Structure

For a fund that intends to accept US tax-paying LPs (e.g., US family offices, endowments, fund-of-funds, and the Alumni Ventures network), the VCC + Master-Feeder is the gold-standard architecture.

The structure has four layers:

Layer 1: Capital Inflow

- US taxable LPs commit capital to a Cayman (or Singapore) Feeder LP
- Non-US LPs may commit directly to the Singapore VCC Master Fund

Layer 2: The Feeder

- The Cayman Feeder LP is structured as a partnership or "check-the-box" entity
- This makes the Feeder tax-transparent for US federal income tax purposes — US LPs are taxed directly on their share of fund income, not on the fund level
- The Feeder pools capital from all US LPs and forwards it to the Master VCC

Layer 3: The Master

- The Singapore VCC Master Fund receives pooled capital from the Feeder and from any non-US LPs
- The Master makes all investment decisions and holds all portfolio investments
- The Master accesses Singapore's 13U/13W exemptions and the Vietnam-Singapore DTA

Layer 4: The Deployment

- Capital flows from the Master VCC to Singapore SPVs (Singaporean holding companies)
- The Singapore SPVs hold equity in Vietnamese operating companies
- On exit, proceeds flow back up the structure to LPs

The structure is engineered to deliver three properties simultaneously:

- Tax efficiency at the Master Fund level (0% Singapore capital gains tax)
- Tax transparency for US LPs (pass-through from Feeder)
- Operational simplicity (single Master VCC holds all investments, regardless of LP type)

3.2 The "Armor" of the SANVC Value Chain

The Singapore VCC + Master-Feeder is the "Armor" half of the SANVC value chain. The full chain is:

1. Engine — High-Growth Origination: Entry at Series A/B valuations into Vietnam's \$50B+ fintech trajectory (the "Entry" alpha of 30-40% discount to peers)

2. Multiplier — Exit Maturation: Capitalizing on the \$104B SEA M&A; superhighway and SGX-NASDAQ dual-listing pathways

3. Armor — Zero Tax Leakage: Singapore VCC 13U + DTA eliminates the 20% capital gains drag

The combined alpha on a single investment is the sum of these three forces. The first two create the gross return; the third preserves it for the LP.

IV. The Quantification: How Much Alpha Does the Structure Add?

4.1 A Side-by-Side Comparison

The table below compares the LP net outcome for a representative US\$1M Series A investment, exited at 4x four years later, deployed through three structures:

Item	Direct Investment	Cayman Fund (No VCC)	Singapore VCC 13U
Gross exit value	\$4,000,000	\$4,000,000	\$4,000,000
Vietnam CGT (20%)	(\$600,000)	(\$600,000)	\$0
Singapore fund-level tax	N/A	N/A	\$0
Subtotal	\$3,400,000	\$3,400,000	\$4,000,000
Fund-level expenses (5-yr life)	N/A	(\$140,000)	(\$140,000)
Fund-level net	\$3,400,000	\$3,260,000	\$3,860,000
Carry (20% above hurdle)	N/A	(\$352,000)	(\$400,000)
Net to LP	\$3,400,000	\$2,908,000	\$3,460,000

The Singapore VCC structure delivers an LP outcome that is 18.9% higher than a Cayman fund and 1.8% higher than a direct investment (after the fund's carry is accounted for). Across an US\$50M fund that achieves 4x gross MOIC on average, this difference compounds to US\$2.5-5M of incremental LP value.

4.2 The IRR Differential

At the fund level, the structure adds 100-200 basis points of net IRR for a typical Series A/B venture fund, all else equal:

- A 4x MOIC over 5 years equals approximately 32% gross IRR
- After carry and expenses: ~24% net IRR via Cayman fund
- With VCC + DTA tax preservation: ~26-28% net IRR

For a fund seeking to deliver top-quartile returns in the venture category, this is the difference between "good" and "top-decile."

4.3 The Compounding Effect Across Funds

The structure's value compounds across vintages. A 200 bp IRR advantage compounded over three fund vintages (12-15 years) creates a structural advantage of 5-8% in cumulative returns — comparable in magnitude to manager selection, sector selection, or entry timing.

V. The Practical Reality: What LPs Should Demand

5.1 The Due Diligence Question

For a prospective LP evaluating any Vietnam-focused fund, the question is not "do you have a Singapore VCC?" — many funds do. The question is:

- Which section of the Singapore Income Tax Act does the fund qualify under? (13O, 13U, or neither)
- Is the fund's tax-exemption status documented via a MAS letter of approval or a private tax ruling?
- Is the Master-Feeder properly structured for US LP tax transparency?
- Is the Feeder Cayman or Singapore-domiciled? Why?
- What is the fund's documented DTA-claim strategy for Vietnamese exits?

Funds that cannot answer these questions clearly are likely under-optimizing the structure, and the leakage is being passed to LPs in reduced net returns.

5.2 The Risks to Be Aware Of

The structure is not risk-free. Sophisticated LPs should be aware of:

- Substance risk: The 13U regime requires 3 investment professionals and minimum local business spending (S\$200,000-1,000,000/year). Funds that are GP-light (e.g., a sole-MD fund) may not qualify and may need to "rent" substance through a Singapore AFO (Approved Fund Manager) relationship. This is legitimate but adds a layer of cost and complexity.
- Holding-period risk under 13W: The 0% capital gains rate under Section 13W requires $\geq 20\%$ holding for ≥ 24 months. A Series A investment exited at Series B (before 24 months) may not qualify. The Fund must plan entry and exit timing accordingly.
- Real-estate-rich risk under DTA: Vietnamese companies holding significant real estate (e.g., warehouse-heavy logistics companies) may not qualify for the DTA exemption. Vietnamese fintech is generally not real-estate-rich, but the diligence must confirm.
- Sub-fund ring-fencing: While a strength in normal operation, the ring-fencing of VCC sub-funds can complicate cross-sub-fund recycling of capital. Most VCC funds operate a single Master Fund for this reason.

5.3 The Sign of a Well-Structured Fund

A well-structured fund will:

- Hold a written Section 13U approval letter from MAS / IRAS
- Have a Master-Feeder in place before the first close
- Document the DTA claim strategy in the LPA side-letter
- Have a Singapore-resident fund administrator
- Have a Singapore-resident tax advisor on retainer

- Provide annual tax-transparency reporting to LPs

If a fund cannot produce these, the LP should ask why.

VI. Implications for SANVC's Structure

6.1 Fund I Specifics

Southeast Asia Nexus Fund I is structured as follows:

- Vehicle: Singapore VCC (Umbrella, single Master Sub-Fund for Fund I)
- Tax regime: Section 13U (qualifying with US\$50M target AUM and 3+ investment professionals)
- Cross-border architecture: Master-Feeder with a Cayman Feeder for US taxable LPs and direct Master access for non-US LPs
- Holding period strategy: All Series A/B investments targeted for ≥ 30 -month average hold to safely exceed the 13W 24-month threshold
- Real-estate diligence: Sector-focused (fintech + AI) — none of the Fund's target sectors are real-estate-rich, but the diligence process includes a real-estate-exposure check on every investee

6.2 What This Means for LPs

For LPs in the Fund:

- Singapore-resident LPs: 0% capital gains tax on distributions (subject to their personal tax position)
- US taxable LPs: Pass-through taxation from the Cayman Feeder; receive a K-1-equivalent annual statement; no entity-level US tax on the fund
- Taiwan LPs: Distributions treated as foreign-source income; 0% withholding on the distribution from the fund
- Korea, Japan, EU LPs: Generally eligible for the DTA exemption; local tax depends on local rules
- LPs in jurisdictions without a DTA with Singapore: Lose the DTA benefit, but still benefit from 13U/13W at the Singapore level (which exempts fund-level tax on Singapore-source income). The 20% Vietnam CGT remains, but in practice this affects a small minority of LPs.

6.3 What This Means for Founders

For Vietnamese founders receiving SANVC investment:

- The fund's investment is in USD at the Master VCC level, with Singapore SPVs holding the Vietnamese operating company shares
- Capital calls and exits are processed via the Master VCC's standard fund infrastructure
- The fund is structured for international exits from day one — every portfolio company should be built with a Singapore SPV holding company in mind
- The 24-month holding period rule means founders should not plan an immediate buyback; the Fund's hold is 5+ years by mandate

VII. Conclusion: The Legal Structure Is Half the Alpha

For an LP evaluating a Vietnam-focused venture fund, the question "what is your gross IRR target?" is the wrong first question. The right first question is "how is your fund structured, and what is the documentation trail for your tax exemption?"

The data is unambiguous. A properly structured Singapore VCC under Section 13U, with a Master-Feeder for US LPs and a DTA-claim strategy for Vietnamese exits, delivers a 1.8-19% improvement in net LP value relative to alternative structures — and 100-200 basis points of incremental net IRR.

For Southeast Asia Nexus Fund I, the structure is not a back-office implementation detail. It is one of the fund's three sources of alpha (alongside the Vietnam entry discount and the SEA exit maturation), and it is the only one of the three that is fully under the GP's control.

The Vietnam market is the engine of the fund's returns. The Singapore regional positioning is the multiplier on those returns. And the VCC + DTA + Master-Feeder architecture is the armor that preserves the result.

For LPs evaluating Fund I, the structure is not a hurdle to clear. It is the answer to the question "why this fund, and not one of the other 50 Vietnam-focused funds raising in 2026?"

VIII. Methodology and Sources

This report synthesizes data and analysis from the following primary sources:

- Singapore Income Tax Act, Sections 13O, 13U, and 13W (Inland Revenue Authority of Singapore)
- Monetary Authority of Singapore (MAS) Variable Capital Company framework guidance, 2020-2025
- Vietnam-Singapore Double Tax Agreement, signed 1994, last updated 2014
- State Bank of Vietnam guidance on foreign institutional capital gains tax (Circular 111/2013, Circular 92/2015, and subsequent guidance)
- Vietnam's Law on Personal Income Tax and Law on Corporate Income Tax, including amendments through 2025
- Big 4 tax firm advisories (Deloitte, EY, KPMG, PwC) on VCC structuring and Vietnam inbound investment
- SANVC proprietary modeling of representative Series A/B exits under three structural alternatives

This report is published for educational and informational purposes. It does not constitute tax, legal, or investment advice. LPs should consult their own tax and legal advisors before committing to any fund, including Southeast Asia Nexus Fund I.

Appendix A: Glossary of Key Terms

Term	Definition
VCC	Variable Capital Company — a Singapore corporate structure purpose-built for investment funds, operational since 2020
Section 13O	Singapore tax exemption for funds with S\$20M+ AUM and 2 IPs
Section 13U	Singapore tax exemption for funds with S\$50M+ AUM and 3 IPs (SANVC Fund I's regime)
Section 13W	0% Singapore capital gains tax on disposals of shares held $\geq 20\%$ for ≥ 24 months
DTA	Double Tax Agreement — bilateral treaty preventing double taxation
Master-Feeder	Fund structure with a Master Fund (holds investments) and Feeder Funds (channel LP capital)
Check-the-box	US tax election that makes a foreign entity "disregarded" for US federal tax purposes (tax-transparent)
MOIC	Multiple on Invested Capital — gross exit value divided by invested capital
IRR	Internal Rate of Return — annualized effective compounded return rate
Carry	GP's share of fund profits, typically 20% above a 1.5x-2x hurdle
AV Syndicate	Alumni Ventures syndicated co-investment platform — provides follow-on capital to SANVC portfolio companies

Appendix B: Southeast Asia Nexus Fund I — Structural Snapshot

Parameter	Detail
Vehicle	Singapore Variable Capital Company (Umbrella)
Sub-Fund	Master Sub-Fund — Southeast Asia Nexus Fund I
Tax Regime	Section 13U, Singapore Income Tax Act
Cross-Border	Master-Feeder with Cayman Feeder for US LPs
Fund Hard Cap	US\$50 million
Investment Period	3 years initial deployment + 2 years follow-on
Hold Period	5+ years average (with 30-month minimum to qualify for 13W)
Target Net IRR	19-31%
Target MOIC	2.5-4.0x
Target LP Composition	40-50% US / 20-30% Taiwan & Greater China / 20-30% SEA / 5-10% other
First Close	Q3 2026 (US\$20M target at preferential terms)
GP Carry	20% above 1.5x hurdle, 25% above 3x hurdle
Mgmt Fee	1.5% (first close) / 2.0% (subsequent closes)

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