

**PXP Vietnam Fund Limited**

A Cayman-domiciled closed-end fund listed on the Main Market of the London Stock Exchange. The investment objective of the Company is to seek long-term capital appreciation of its assets by investing in a portfolio of the equity securities of Vietnamese companies.

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VNF LN <Equity>

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**I• Fund Details**

<b>Launch Date</b>	31 December 2003		
<b>Issue Price</b>	US\$ 2.50		
<b>NAV per share</b>	<b>US\$ 4.097</b> as at 28 September 2012		
<b>Number of shares in issue</b>	12,000,000		
<b>Fund size</b>	US\$ 49.16 million		
<b>Number of holdings</b>	Listed: 43 Pre-Listed: 0		
<b>Performance</b>	<b>YTD</b>	<b>1 year</b>	<b>2 years</b>
<b>PXPVF*</b>	<b>+23.29%</b>	<b>+17.49%</b>	<b>-4.25%</b>
<b>VNI**</b>	<b>+12.63%</b>	<b>-8.29%</b>	<b>-19.34%</b>
	<b>3 years</b>	<b>4 years</b>	<b>5 years</b>
<b>PXPVF*</b>	<b>-32.02%</b>	<b>-3.30%</b>	<b>-62.04%</b>
<b>VNI**</b>	<b>-42.18%</b>	<b>-31.57%</b>	<b>-71.07%</b>
	<b>6 years</b>	<b>7 years</b>	<b>8 years</b>
<b>PXPVF*</b>	<b>-18.65%</b>	<b>+54.66%</b>	<b>+70.99%</b>
<b>VNI**</b>	<b>-42.62%</b>	<b>+3.42%</b>	<b>+27.19%</b>

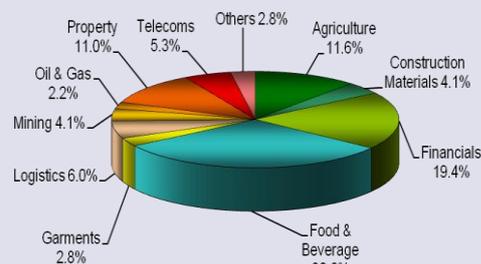
\* All figures are NET of fees \*\* Index performance in US\$

**II• Top-10 Holdings**

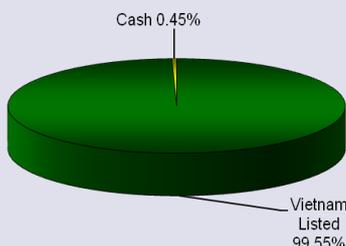
	% of Net assets
<b>Vinamilk (VNM)</b>	28.0
<b>Sacombank (STB)</b>	11.3
<b>REE (REE)</b>	6.2
<b>FPT Corporation (FPT)</b>	5.3
<b>Dong Phu Rubber (DPR)</b>	4.2
<b>HCMC Securities (HCM)</b>	4.1
<b>Southern Seed Corp (SSC)</b>	3.7
<b>Hoa Phat Group (HPG)</b>	3.5
<b>Hoang Anh Gia Lai (HAG)</b>	3.2
<b>Gilimex (GIL)</b>	2.8

**IV• PXPVF Portfolio**

**Sectoral Breakdown (as at 28 September 2012)**



**Segments (as at 28 September 2012)**



**III• Investment Comment**

Much has already been written and spoken about the group-critical statement by Vietnam's General Secretary, Mr Nguyen Phu Trong, at the conclusion of the Communist Party's Central Committee Meeting on 15 October 2012. Since we have no unique insight into either the deliberations that culminated in the apology to the nation or the future ramifications of such contrition we shall refrain from further comment and await developments, if any. We were, however, intrigued by the following, attributed to Mr. Trong in the same Bloomberg report (my emphasis): **"The Central Committee called on state-owned enterprises to end non-core investments and the government to sell stakes in companies in which it owns less than 50 per cent by 2015."**

Assuming that the speech was correctly reported and translated we see potentially interesting prospects for the Fund's biggest holding (and arguably Vietnam's only truly internationally respected corporation), Vinamilk (VNM) should "called on" become official government policy.

We may have mentioned the shareholding structure of Vinamilk on occasion but it bears repeating in this context in order that the implications are clear. As everyone is aware, Vinamilk is at the 49% foreign ownership limit and trade between foreign investors almost always happens via crosses or off-market transactions at a premium to the market price. The important point here, however, is that the Vietnamese government owns 45% of Vinamilk. If the Central Committee's plan comes to fruition that stake should be for sale at some point in the next three years.

It stands to (our) reason that such sales should be made to the highest bidder which, under current market conditions in this particular stock at least, is most likely to be a foreigner or group of foreigners. This would obviously require the foreign limit to be raised (or preferably removed). Although such a move is politically sensitive we are sure that it remains a topic of discussion, favoured by those who recognise that the most cost-efficient way to plug the large state-owned enterprise generated hole in the Vietnamese government's balance sheet is to sell equity to foreign investors.

Entirely speculative on our part at this stage, of course, but it does present us with an interesting quandary in relation to the Fund's holding in Vinamilk which currently represents a little over 30% of the portfolio due to its strong performance (up 56% year-to-date and a "12 1/2 bagger" overall at the time of writing). Although in compliance with the restriction that "the Company will not invest more than 10 per cent. of its Net Asset Value at the time of the investment in the shares of a single investment company" (my emphasis), a weighting above 30% of the portfolio clearly raises concentration issues which need to be addressed.

We have maintained the Fund's holding to date for fundamental and qualitative reasons, and do not foresee that rationale changing in the medium-term at least, with annual net profit growth conservatively estimated in excess of 20% in each of the next five years, following an average of 38% growth in the almost eight years that the Fund has owned the stock.

Shareholders approved a "C" Share issue at the Fund's Annual General Meeting and we had hoped that we would be able to manage the weighting through such an issue (which would be the first new issue of Shares by the Fund since March 2006) rather than by selling part of a holding which we would likely not be able to repurchase. The timing of the launch of such an issue is complicated by the lack of new appetite for Vietnam among international investors, as evidenced by the widening discount to Net Asset Value of the Fund's Shares (currently out to 23%, the widest for over two years) as well as the paltry share of onshore market turnover represented by foreigners.

It is not our place to attempt to argue with the market's pricing of the Fund which is clearly a factor of general disinterest in the underlying but we are somewhat bemused that the discount should be widening in a Fund the portfolio of which is (a shade) over 49% invested in stocks which are at the foreign ownership limit in a market which is contemplating relaxing such limits.

In any event, Shareholders can rest assured that any sales of shares in the Fund's largest holding will be made strictly to the highest bidder.