Newsletter

– 18 January 2012 –

Vietnam Emerging Equity Fund Limited (VEEF)

A Cayman-domiciled open-ended fund with monthly liquidity. 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 companies with a significant presence in Vietnam.

Summary

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Subscriptions:
Monthly
Redemptions:
Monthly (30 Days Notice)

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I• Fund details

Launch Date	3 November 2005
Issue Price	US$ 5.000
NAV per share	**US$ 3.312** as at 30 December 2011
Number of shares in issue	8,308,691
Fund size	US$ 27.52 million
Number of holdings	Listed: 44 Pre-Listed: 3

Performance	1 Month	1 Year	2 Years
VEEF*	-1.340%	-30.58%	-41.38%
VNI**	-7.808%	-32.76%	-37.58%
Performance	**3 Years**	**4 years**	**5 Years**
VEEF*	+6.942%	-71.75%	-64.78%
VNI**	-7.416%	-71.12%	-64.30%

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

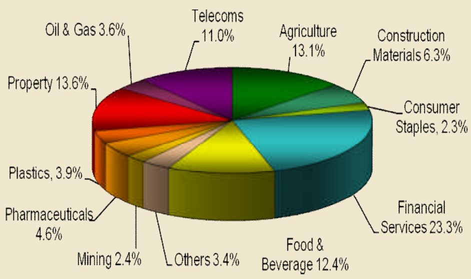
II• Top 10 holdings

	% of Net assets
Sacombank (STB)	11.3
Vinamilk (VNM)	9.9
FPT Corp (FPT)	8.1
Dong Phu Rubber (DPR)	6.3
Hoang Anh Gia Lai (HAG)	5.1
Binh Minh Plastics (BMP)	3.8
Asia Commercial Bank (ACB)	3.7
Petrovietnam Drilling (PVD)	3.6
SSG Construction*	3.6
HCMC Securities (HCM)	3.5

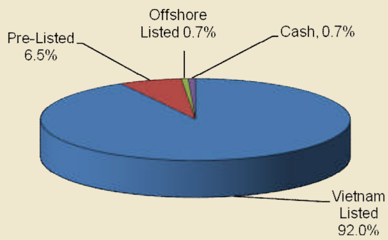
* Pre-listing holding

IV• VEEF portfolio

Sectoral Breakdown (as at 30 December 2011)



Segments (as at 30 December 2011)



III• Investment comment

A relatively good finish to the year enabled the Fund's NAV performance to edge ahead of the Viet Nam Index for calendar 2011 and to comfortably beat that of the DB Tracker ETF. The weak performance of the Viet Nam Index continued into the first trading week of 2012, resulting in a successful test of the long-term support level at 330. A currently unbroken streak of eight consecutive up days since then may reflect a cautiously (given that the total increase during the run is less than 7%) more positive outlook as we approach the Year of the Dragon. With the latest batch of positive statements from the State Bank - including that the currency will not depreciate by more than 3% during 2012 and that tight monetary policy will continue until year-on-year inflation is back to single digits - it appears that the market may finally be paying attention. Any sceptics regarding currency stability are advised to recall that the governor stated last August that the VND/USD rate would not weaken by more than 1% before the end of the year, and the exchange rate was as good as his word. There is currently ample USD liquidity in the system, which is poles apart from the pre-Tet situation a year ago which resulted in a 7% plus devaluation a few days after the resumption of trading.

We had heard various rumours suggesting the introduction of "reforms" intended to revitalise a moribund stock market over the previous several weeks but until two days ago nothing of substance had been published. The deputy head of the National Commission for Financial Supervision (an advisory body, not to be confused with the regulator; the State Securities Commission) reported his organisation as having made a number of recommendations for inclusion in a forthcoming Stock Market Restructuring Plan, due for "submission to the Prime Minister for approval in the first quarter" of 2012. The focus is on improvements in liquidity and transparency via better quality equitisations (of major state-owned enterprises) in bigger proportions, with simultaneous listings, as well as increased foreign ownership limits. The last of those is obviously of most appeal for our Shareholders with five of the Fund's top-10 holdings, representing 29% of NAV, at the maximum after FPT achieved the milestone yesterday.

Aside from our self-interest on behalf of Shareholders we do feel that this type of agenda is exactly what the market and possibly the financial system as a whole is crying out for; currently frozen banking sector liquidity could be resolved by printing money (not a good idea if you are trying to control inflationary pressures) or by attracting new money into the system to get things moving. Loosening foreign ownership restrictions would attract buyers of VND in order to buy stocks, underpinning the currency and reinforcing the rebuilding of confidence. The combination of market strength and a willingness to own Dong-denominated assets, in turn, might catalyse further buying from domestic investors releasing part of the estimated US$ 40 to 50 billion in private "reserves" of physical gold and foreign currency held outside the financial system. Whether the government has the will and support to take such bold steps remains to be seen but we remain hopeful that the benefits of foreign investment to the revitalisation of the economy are understood and appreciated well enough to overcome any political reluctance.

In summary; the government is continuing to do the right things at a monetary/macro level in an attempt to move from the relatively short boom/long bust economic cycles of recent years, the success of which is becoming increasingly evident. The next steps are crucial for long term success but we firmly believe that the market has seen the bottom and the early days of the new lunar year will see increased momentum and a better market than we have seen since 2007. The last Year of the Dragon (and only previous in the market's history) saw the VNI increase by 137%, which may be a good omen. Or not. Time to commit to the market / double up? We think so.