

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.

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Portfolio Manager

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Bloomberg Ticker

PXPVEEF KY <Equity>

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Subscriptions:

Monthly, at month end

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 (Lead Series) | US\$ 4.175 as at 31 July 2012 | | |
| Number of shares in issue | 8,250,407 | | |
| Fund size | US\$ 34.44 million | | |
| Number of holdings | Listed: 45 Pre-Listed: 3 | | |
| Performance | YTD | 1 Year | 2 Years |
| VEEF* | +26.09% | +12.41% | -21.71% |
| VNI** | +18.91% | +0.83% | -23.15% |
| Performance | 3 Years | 4 years | 5 Years |
| VEEF* | -16.35% | -6.56% | -62.10% |
| VNI** | -24.13% | -26.18% | -64.67% |

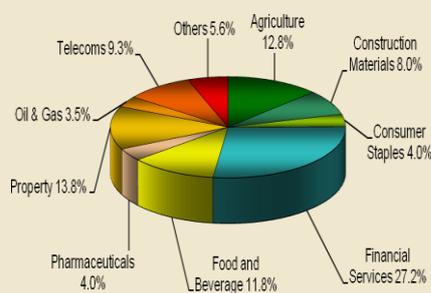
* All figures are NET of fees ** Index performance in US\$

II• Top 10 holdings

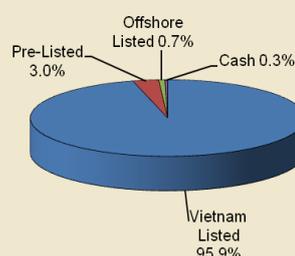
| | % of Net assets |
|--------------------------------------|-----------------|
| Sacombank (STB) | 10.7 |
| Vinamilk (VNM) | 8.2 |
| FPT Corp (FPT) | 8.2 |
| Hoang Anh Gia Lai (HAG) | 7.0 |
| Dong Phu Rubber (DPR) | 5.4 |
| Hoa Phat Group (HPG) | 5.3 |
| Petrovietnam Fertiliser (DPM) | 4.7 |
| HCMC Securities (HCM) | 4.5 |
| Asia Commercial Bank (ACB) | 3.9 |
| Petrovietnam Drilling (PVD) | 3.5 |

IV• VEEF portfolio

Sectoral Breakdown (as at 31 July 2012)



Segments (as at 31 July 2012)



III• Investment comment

And just when investors were starting to be convinced that the Vietnam stock market was looking good once again, with a whiff of inevitability the walls came tumbling down. The arrest earlier this week of Mr. Nguyen Duc Kien, a prominent investor in local banks and co-founder of, among others, Asia Commercial Bank (ACB) caused the biggest one day drop in the Vietnam Index (VNI) in percentage terms since October 2008 when the news broke on 21 August. Both markets were sold off across the board as local retail punters, the dominant force in the local investment community, decided to panic first and think about it later. Whether the arrest is an isolated action aimed at penalising alleged wrongdoings in the orchestration of the unofficial takeover of Sacombank (STB) by an individual or group, or is part of a broader political play remains to be seen, but conspiracy theories abound, as one might expect.

Results of the probe are due to be released by the end of the month and sentiment is likely to remain fragile until such time as we have a clearer picture of whether these actions represent the real battle or are merely a skirmish designed to destabilise certain political power bases, as has been suggested in some quarters. Rumours of further arrests and the alleged existence of lists of persons of interest in the ongoing investigation have led to renewed severe weakness today, with few stocks attracting bids.

Our view on the narrow bank takeover-related issue is that the message may ultimately prove to be that breaking the rules is no longer to be tolerated, and possibly even that no-one is above the law, although the latter theory may be a bit of a stretch. We have long held the view that the absence of a Takeover Code is a weakness in the system and even if current events do not result in the passage of this type of legislation the market as a whole would benefit from the regulator being given greater authority to investigate and enforce such rules as there are.

No-one is yet saying that there is any problem in the financial health of the (allegedly) most-involved institutions (ACB, EIB and STB), although the (alleged) lending of vast amounts of money by bank A to one of its shareholders to buy an (allegedly) significant stake in bank B might cause some problems if the only collateral at bank A is the shares in bank B and the price of bank B collapses in a heap. Clarity in terms of precisely what is going on would be beneficial and the sooner the better, obviously.

This week has once again emphasised the dangers of too much reliance on the connection of dots on multi-coloured pictures. On Friday last week (17 August) apparently the 21- and 50-day moving averages of the VNI crossed, supposedly a very bullish sign but sadly not much use or comfort when real events occur. Similarly, the psychologically important 400 point level didn't stand up to today's rumoured arrests and the theoretically important 394 support level was only realistically sustainable because the index couldn't go down too much further due to daily movement limits. A couple more arrests later today or tomorrow and that magic number will prove just as illusory as the rest of them when the real world intervenes. Expect to see much mention of the perils of attempting to catch falling knives in forthcoming broker commentary as soon as that happens.

So what to do? Hiding under the desk and hoping it all goes away is one option, of course, but it was getting rather crowded under there so we have decided to come out and test the water. Since we have never been much for fence sitting we prefer to reiterate that an untradeable index such as the VNI is ultimately just a number and that therefore focus can be more sensibly diverted to the impact of the current indiscriminate selling and the numerous metaphorical babies being thereby chucked out with the bathwater. Cheap stocks are getting even cheaper at the same time expensive stocks are getting less so. It is extremely unlikely that more than a maximum of a couple of handfuls of Vietnam's listed companies are linked to current events, and we feel that one can justifiably argue that for long term, fundamental investors the next couple of weeks may well prove to have been an opportune time for at least the bold and the fearless to accumulate quality stocks at increasingly attractive valuations. If one has an optimistic outlook on how all of this uncertainty will ultimately be resolved, one can envisage that we end up with a more transparent, better supervised and less manipulated market at the very least.