Newsletter

– 25 October 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

Portfolio Manager
Kevin Snowball
KHSnowball@pxpam.com

Bloomberg Ticker
PXPVEEF KY <Equity>
ISIN
KYG 936101065

Subscriptions:
Monthly, at month end
Redemptions:
Monthly (30 Days Notice)

For more information, please contact:
KHSnowball@pxpam.com

PXP VIETNAM ASSET MANAGEMENT

PXP Vietnam Asset Management
Vietnam Representative Office
6th Floor, Opera View Building
161 Dong Khoi, District 1
Ho Chi Minh, Vietnam

Tel. N⁰: + (84) 8 3827 6040
Fax N⁰: + (84) 8 3827 6043
www.pxpam.com

I• Fund details

Launch Date	3 November 2005
Issue Price	US$ 5.000
NAV per share (Lead Series)	**US$ 3.864** as at 28 September 2012
Number of shares in issue	8,196,800
Fund size	US$ 31.67 million
Number of holdings	Listed: 45 Pre-Listed: 3

Performance	YTD	1 year	2 years
VEEF*	**+16.70%**	**+1.02%**	**-19.68%**
VNI**	+12.63%	-8.29%	-19.34%
Performance	**3 years**	**4 years**	**5 years**
VEEF*	**-40.52%**	**-18.19%**	**-68.86%**
VNI**	-42.18%	-31.57%	-71.07%

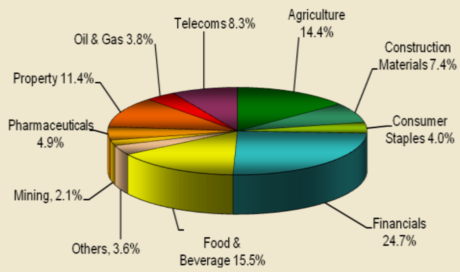
* All figures are NET of fees ** Index performance in US$

II• Top 10 holdings

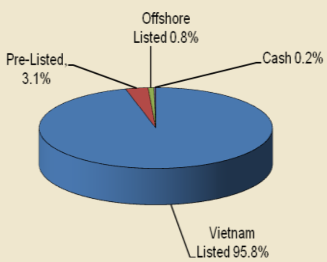
	% of Net assets
Vinamilk (VNM)	11.7
Sacombank (STB)	10.0
FPT Corp (FPT)	7.1
Dong Phu Rubber (DPR)	6.3
Hoang Anh Gia Lai (HAG)	5.3
Petrovietnam Fertiliser (DPM)	5.1
Hoa Phat Group (HPG)	4.8
HCMC Securities (HCM)	4.1
Petrovietnam Drilling (PVD)	3.8
Hau Giang Pharma (DHG)	3.7

IV• VEEF portfolio

Sectoral Breakdown (as at 28 September 2012)



Segments (as at 28 September 2012)



III• Investment comment

The Viet Nam Index has essentially been in a "holding pattern" since bottoming at 378.17 points on the 3rd trading day after news of the arrest of the co-founder of Asia Commercial Bank (ACB) rocked the market in late August, with the trading range having narrowed to between 380 and 400 points. It appears that the market requires a stimulus to awake it from its slumber, which we anticipate arriving at or before the conclusion of the deliberations of the current meeting of the National Assembly (scheduled to last until 21 November 2012), in the form of a plan and timetable to resolve the issues in the banking sector. Such a development, assuming that our optimism is not misplaced, should act to improve sentiment in that investors, having seemingly moved beyond the successful resolution of the macroeconomic concerns of the past couple of years (namely; excessively high inflation, a persistently weak currency and a large trade deficit), appear to have forgotten that the government is able to deal effectively with such problems when it sets its mind to it.

We have also spotted a development which might well have an extremely positive impact in terms of stimulating foreign investor demand should our interpretation of the possible implications of a recent presentation by the State Securities Commission ("SSC") prove correct. Dr. Nguyen Son, Head of Market Development at the SSC, speaking earlier this week at Viet Capital's generally impressive Vietnam Access Day, discussed the pending (or hopefully impending) introduction of domestic exchange traded funds ("ETFs") and mutual funds. Whilst no precise details of timing or structure were shared with the audience, we have seen a translation of a draft Decision of the Prime Minister that seems to suggest that such vehicles will provide (very sensibly, in our opinion) an exception to foreign ownership restrictions by having none themselves. We had been concerned that such structures would prove unworkable if foreigners were restricted to 49% ownership as they are with domestically listed closed end funds and would therefore be available only to domestic investors. To explain that; if a mutual fund had net assets equivalent to US$100, $51 of which were owned by domestic investors with the remaining $49 held by foreigners and a foreigner wanted to subscribe, he (or she, or it) would be prevented from doing so unless there was a concurrent slightly larger subscription from a domestic investor. Conversely, with the same ownership, if a domestic investor wished to redeem presumably there would have to be a "forced" redemption of foreign holdings.

Removing the restriction would enable foreigners to subscribe without limitation to domestic ETFs on, for example, the VN30 and HNX30 indices (for Ho Chi Minh City and Hanoi respectively) which would give indirect access to stocks at the foreign ownership limit (assuming that the current limits are maintained). Since the passive nature of ETFs generally means that shares are not voted (and could in this case be prevented from doing so) we do not see this as being necessarily sensitive and it would be much easier to introduce than a foreign board or non-voting depositary receipts, such as exist in Thailand. Whilst we have no official confirmation that the above is the intention we are convinced that it would act as an exceptional catalyst to foreign demand. The introduction of such products is also likely to prove positive on the domestic side by creating savings products outside of the mainstream banking system given the current (possibly understandable) lack of trust in the banks.