Newsletter

– 26 November 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.

Portfolio Manager
Kevin Snowball
KHSnowball@pxpam.com

Bloomberg Ticker
PXPVEEF KY <Equity>
ISIN
KYG 936101065

Subscriptions:
Monthly, at month end
Redemptions:
Monthly (30 Business 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$ 3.887** as at 31 October 2012
Number of shares in issue	8,196,800
Fund size	US$ 31.86 million
Number of holdings	Listed: 45 Pre-Listed: 3

Performance	YTD	1 year	2 years
VEEF*	**+17.40%**	**+5.51%**	**-15.19%**
VNI**	+11.51%	-6.97%	-19.72%
Performance	**3 years**	**4 years**	**5 years**
VEEF*	**-40.56%**	**-0.51%**	**-69.05%**
VNI**	-43.30%	-9.65%	-71.86%

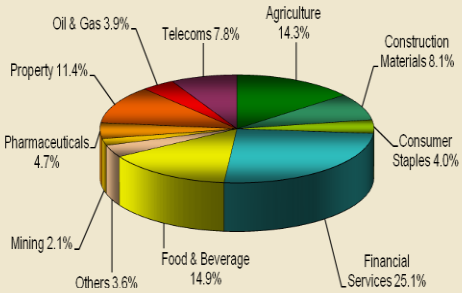
* All figures are NET of fees ** Index performance in US$

II• Top 10 holdings

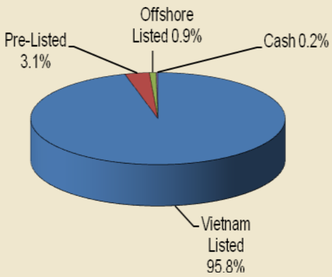
	% of Net assets
Vinamilk (VNM)	12.4
Sacombank (STB)	9.5
FPT Corp (FPT)	6.7
Dong Phu Rubber (DPR)	6.4
Hoa Phat Group (HPG)	5.6
Hoang Anh Gia Lai (HAG)	5.4
Petrovietnam Fertiliser (DPM)	5.0
HCMC Securities (HCM)	4.0
Petrovietnam Drilling (PVD)	3.9
Hau Giang Pharma (DHG)	3.5

IV• VEEF portfolio

Sectoral Breakdown (as at 31 October 2012)



Segments (as at 31 October 2012)



III• Investment comment

The mood in Vietnam's stock exchanges as we approach the end of 2012 can best be described as "depressing" to the extent that one could be forgiven for thinking that we are having a "down" year. Yet, at the time of writing, with a week of November remaining the VNI is still up by 9.6% in USD year-to-date, the Fund's Net Asset Value up nearly two-thirds more than that, by 15.7%.

Unloved and unwanted - as evidenced by daily turnover having retreated to less than the levels last seen at the beginning of the year (coincidentally - we hope - also the nadir of the VNI prior to a near 50% rally from January to May) - conditions may now be regarded as at least interesting if not approaching optimal for the contrarian investor. The market remains cheap, macro conditions are holding fast, with a small trade surplus for the first eleven months, a remarkably firm currency and inflation running at 7.08% annualised.

There is, of course, still a bit of an issue overhanging the market with the probable requirement for a recapitalisation of at least some of the larger banks, but that shouldn't be a surprise either to our reader or to the market at large, and so one assumes that if this market has any ambition toward a semblance of efficiency that most of that should already be in the price. "How?" and "when?" are the two main uncertainties holding the market back; the former might benefit from an uptick in liquidity in the property market since so many loans are collateralised by that particular asset***** but, in any event, progress towards the setting up of a backstop for the sale of portfolios of non-performing loans seems to be under way according to recent statements from Vietnam's Prime Minister. Our view on "when?" is very simply "the sooner the better".

We may well be alone in holding onto some hope for a market rally into the year end and beyond on fundamental grounds although we will admit to having recently been in some danger of being bored into submission and accepting the position of the doomsayers that it's all over for Vietnam. We are told that Europeans don't want to commit new investment to the country because it is "too hard" to do business here. Leaving aside the perhaps slightly cynical view that Europe has no money to invest even if it wanted to we prefer to focus on inward investment by the likes of Samsung, who already assemble 24% of their smartphone output in Vietnam - with export value from such production at close to 10% of the country's total exports - and who have recently received approval to more than double said production. Whilst assembly is not strictly manufacturing the "value add" component is obviously more significant than that involved in turning imported textiles into t-shirts for Gap and this type of move up the value chain is obviously having a beneficial impact on the balance of trade, with a near US$ 10 billion deficit last year having turned into a small surplus for the first 10 months of 2012. Disbursed (as opposed to "pledged") foreign direct investment ("FDI") inflows are almost unchanged on last year's levels, which would seem to suggest that some people at least remain comfortable with the business environment. Pledged (or "promised") FDI was down 25% year-on-year to the end of October; we consider this category a less reliable gauge than disbursed (also known as "money in the bank") after US$ 65 billion was "pledged" in 2008, and we don't remember most of that actually turning up.

***** *Real estate-related loans account for approximately 57% of total outstanding borrowing, according to Vietnam's Minister of Construction speaking at the National Assembly on 31 October 2012.*