Newsletter

– 11 September 2013 –

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
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Bloomberg Ticker
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KYG 936101065

Subscriptions:
Monthly, at month end
Redemptions:
Monthly (30 Business 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$ 4.856** as at 30 August 2013
Number of shares in issue	6,089,853
Fund size	US$ 29.59 million
Number of holdings	Listed: 38 Unlisted: 4

Performance	**Month**	**YTD**	**1 year**
VEEF*	**-0.59%**	**+17.38%**	**+20.98%**
VN Index**	-3.73%	+12.68%	+17.58%
	2 years	**3 years**	**4 years**
VEEF*	**+24.58%**	**+1.48%**	**-16.71%**
VN Index**	+9.83%	-4.10%	-27.01%
	5 years	**6 years**	**7 years**
VEEF*	**-13.12%**	**-56.90%**	**-28.78%**
VN Index**	-31.36%	-59.97%	-26.99%

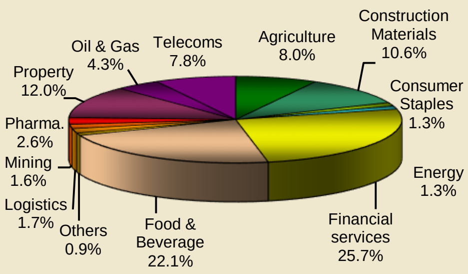
* All figures are NET of fees ** Index performance in US$

II• Top 10 Holdings

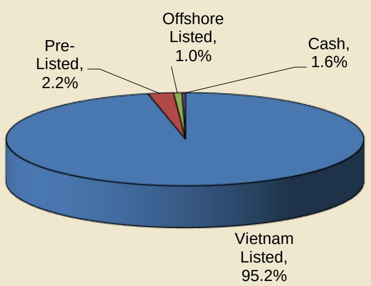
(as at 30 August 2013)	% of Net assets
Vinamilk (VNM)	19.5
Hoa Phat Group (HPG)	8.6
Sacombank (STB)	8.5
FPT Corp (FPT)	7.2
Hoang Anh Gia Lai (HAG)	6.5
HCMC Securities (HCM)	5.3
Dong Phu Rubber (DPR)	5.2
PetroVietnam Drilling (PVD)	4.3
Military Bank (MBB)	3.4
Vietnam Sec. Fund (VFMVF1)	3.1

IV• VEEF Portfolio

Sectoral Breakdown (as at 30 August 2013)



Segments (as at 30 August 2013)



III• Investment Manager's Comment

August started well but was ultimately a disappointing month for the Vietnam stock market, with the VNI ending down 3.7% in USD having been up a little over 4% on the 19th of the month. External pressures from a regional sell-off due to tapering concerns were initially ignored, trumped by domestic optimism toward the possible relaxation of foreign ownership limits, but a combination of hawkish statements towards Syria from the West chilling relations with Russia together with understandable dissapointment vis-à-vis the reported recommendations on the form that improvements in foreign access might take stopped the local rally in its tracks.

What could have been a relatively simple and straightforward raising of foreign ownership limits in non-sensitive sectors from 49% to 60% has unfortunately morphed (if press reports are accurate) into a recommendation that this additional 11% be made available only to "strategic investors" (whoever they may be, since the term, although frequently bandied about is not currently legally defined). This reduces the scope of price appreciation for those stocks already at their foreign limits as one would presume a limited number of investors would, in that case remove the additional room in off-market blocks rather than it facilitating a free-for-all in the market. We do, however, retain our cautious optimism that those who might be considered uncertain of the broader economic benefits of operating a stock market will get with the programme before a final decision is taken. The Fund's portfolio, and in particular its approximately 43% current weighting toward stocks already at the foreign ownership, continues to reflect our view that such a group will ultimately benefit from improved accessibility.

In our opinion recent weakness represents a renewal of the investment opportunity for the risk adventurous, non-herd investor; Vietnam is arguably at a different stage of the economic cycle to the rest of the ASEAN region and relatively insulated from the impacts of limited engagement in the Middle-East. Economic growth onshore is showing signs of life and inflation, although of concern at a superficial level when observing only the headline numbers, is moderate from a local perspective. A dramatic improvement in the balance of trade in the recent past, with a second consecutive annual trade surplus possible for 2013, completes the picture of a much more impressive platform of macroeconomic management than previously. This economic transformation is, for us, the foundation of the investment proposition for Vietnam over regional frontier and emerging market peers, many of whom are beginning to head in the opposite direction. Recognition of these improvements partly justifies the relative strength of the Dong compared to regional currencies with a mere 1.4% depreciation YTD compared to 7.3% for the Philippine Peso and 12.3% for the Indonesian Rupiah, for example.

Although GDP growth has been relatively muted at "just" 4.9% in the first six months of 2013, this is set to accelerate through the remainder of the year and the Vietnamese government forecasts 2014 GDP growth of 5.8% and CPI of 7%. The impetus for this return to more attractive growth will come as the State Bank of Vietnam's VAMC "bad bank" begins to reduce bad-debt levels and the resumption of lending already evident in the banking sector (credit growth 5.4% YTD) should stimulate faster growth across the economy through the fourth quarter of 2013 and beyond.

Total reported interim profits of VND39.3tn (USD1.9bn) represent an increase of 10% over the same period last year. The Fund's holdings have posted even more encouraging first-half results, with the effect that the PXP universe is now trading at a 2014 price earnings multiple of 10.3x, which falls to 9.3x if one excludes the three high-multiple core ETF holdings (Bao Viet Holdings, Masan and Vingroup), as the Fund does.

An understanding of the investment case for Vietnam really isn't rocket science (otherwise we wouldn't be the ones telling you about it); in our view the danger is that if you overthink it you'll miss it.