PXP VIETNAM FUND LTD

Newsletter

– 18 April 2011 –

PXP Vietnam Fund Limited

A Cayman-domiciled closed-end fund listed on the Main Market of the London Stock Exchange. 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 Vietnamese companies.

Summary

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I• Fund details

Launch Date	31 December 2003
Issue Price	US$ 2.50
NAV per share	**US$ 3.540** as at 31 March 2011
Number of shares in issue	12,000,000
Fund size	US$ 42.48 million
Number of holdings	Listed: 42 Pre-Listed: 0

Performance	1 Month	YTD	1 Year
PXPVF*	-1.885%	-16.78%	-30.00%
VNI**	-0.133%	-11.22%	-15.64%
Performance	**3 years**	**5 years**	**7 years**
PXPVF*	-33.61%	-22.64%	+35.37%
VNI**	-31.21%	-30.21%	+25.05%

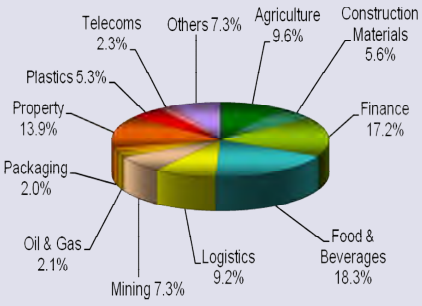
* All figures are NET of fees ** Index performance in US$

II• Top 10 holdings

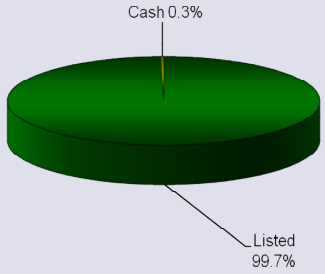
	% of Net assets
Vinamilk (VNM)	17.1
Sacombank (STB)	10.7
REE (REE)	5.3
Binh Duong Minerals (KSB)	5.0
Dong Phu Rubber (DPR)	4.9
Binh Minh Plastics (BMP)	4.9
Hoa Phat Group (HPG)	4.3
Gemadept (GMD)	3.5
Transimex (TMS)	3.3
HCMC Securities (HCM)	3.0

IV• PXPVF portfolio

Sectoral Breakdown (as at 31 March 2011)



Segments (as at 31 March 2011)



III• Investment Comment

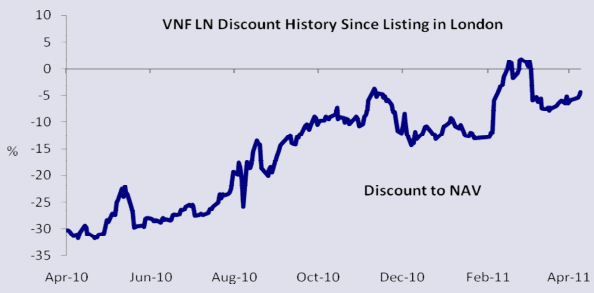
Interest in the Vietnam stock exchanges as measured by daily turnover has declined to levels not seen since the first quarter of 2009. Whether the fact that the post-crisis low was reached in the middle of that period, on 24 February 2009 is merely coincidence or not is a moot point, perhaps in both senses of the phrase. What remains apparent is that local opinion regarding inflationary stories is heavily slanted to the short-term negative with long-term positives either disregarded or possibly not even considered. An example: a rumour circulated after the market today that the government has approved a June increase in electricity prices, the second such in the past couple of months. The extent of such an increase had not been announced at the time of writing, but that didn't prevent broker speculation (ultimately admitted as such) that the price hike would be between 30 and 40%, after 15.3% last time. Inflationary, obviously; CPI number this month or next will be higher accordingly. There are several of glimmers of positive here, in our eyes (with which we admit spend a fair amount of time searching the optimistic aisle), and these are they:

Firstly, the government seems to be loading up the inflation truck fairly determinedly recently. Fuel, energy, minimum wages all dumped in together over a couple of months, with the result that the month-on-month comparatives keep getting bigger. Until everything is at market rates, and then prices only need to stabilise for the rate of increase of the monthly number to start coming down. And isn't that what we're all waiting for? Tangible evidence that government policy is starting to bite (or at least nibble) at the inflationary ogre? Hopefully without annoying it too much; it is an ogre after all.

Further to that; at the start of the year there was much discussion of the long-term expansionary constraints imposed by likely increasingly severe power shortages given that Vietnam's 40% electricity price discount to the region made it uneconomical for infrastructure investors to seriously consider funding BOT projects. A 40% price increase (if confirmed) on top of a 15% increase would bring domestic electricity prices within a few percentage points of regional rates. Might that not be the dawning of a recognition that the US$ 50 billion plus grid expansion necessary to keep up with planned development over the next decade cannot be funded internally, and that if one wishes to attract private international investment into an economy there is a minimum level of acceptable return for those investors?

Interpretation of rumours is a moveable feast in current market conditions. Last week we were hearing that the government was considering reducing the foreign ownership level in banks from 30% to 20%, the logic for which completely escaped us. This week (and its only Monday) it seems that the 20% number is actually an *increase* (from 15% without special dispensation) for a single foreign shareholder. What's next? Perhaps the overdue increase in the overall foreign ownership limits to 49%? We certainly hope so.

We have already remarked (once again) on our boundless (so far) capacity for optimism at the government's ability to adopt a pragmatic approach to macroeconomic development. The narrowing of the gap between black market and official US dollar exchange rates to around 1%, one of the markers of increasing optimism than we have been monitoring since the February devaluation, suggests that confidence may be edging back in to the system. It is, of course, entirely possible that we are wrong about all of the above. But if we're not then we are firmly of the view that this market has very little downside.



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