PXP VIETNAM FUND LTD

Newsletter – 22 February 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$ 4.244** as at 28 January 2011
Number of shares in issue	12,000,000
Fund size	US$ 50.93 million
Number of holdings	Listed: 42 Pre-Listed: 0

Performance	**1 Year**	**2 Years**	**3 Years**
PXPVF*	**-15.069%**	+49.12%	-52.75%
VNI**	**+0.378%**	+51.00%	-50.45%
Performance	**4 years**	**5 years**	**6 years**
PXPVF*	-57.67%	+40.95%	+79.53%
VNI**	-59.66%	+33.47%	+77.17%

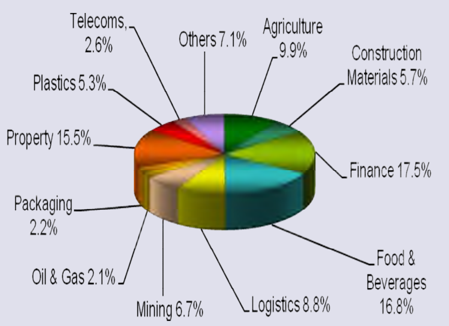
* All figures are NET of fees ** Index performance in US$

II• Top 10 holdings

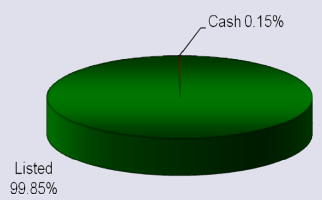
	% of Net assets
Vinamilk (VNM)	15.5
Sacombank (STB)	10.8
REE (REE)	6.3
Dong Phu Rubber (DPR)	5.0
Binh Minh Plastics (BMP)	4.9
Binh Duong Minerals (KSB)	4.4
Hoa Phat Group (HPG)	4.3
Gemadept (GMD)	3.5
HCMC Securities (HCM)	3.4
Transimex (TMS)	3.1

IV• PXPVF portfolio

Sectoral Breakdown (as at 28 January 2011)



Segments (as at 28 January 2011)



III• Investment Comment

At English football grounds, terminal disquiet with the organisational capabilities of the manager (or coach) is traditionally expressed with a repetitive chant of “you don’t know what you’re doing” from what used to be known as the terraces. The 11 February 2011 devaluation of the Vietnamese Dong (by between 7.1 and 9.3% depending on choice of input) was greeted with a similar refrain from external commentators, surprised at the magnitude of the move (having presumably been unaware of the prevailing black market rate) and wondering why it was not just one part of a package of measures designed to address the severe inflationary pressures that Vietnam is continuing to experience. At PXP we were more surprised by the timing (the market having been awash with rumours for the preceding couple of days); the announcement coming as the Stock Market was opening and leaving offshore investors no time to react if this was the buy signal they had been waiting for, but having plenty of time over the weekend and following days to realise that nothing had changed except a worsening of sentiment among domestic investors.

We will admit that even our perpetual optimism with all things Vietnam has been sorely tested recently, and it has taken us over a week to feel ready to make any sensible comment as we try to understand the logic behind recent moves. The Vietnamese Prime Minister was quoted on Bloomberg on Valentine’s Day as having “urged officials to “stabilize” the economy by tackling inflation while also supporting growth by lowering lending rates”; hardly the type of clear declaration of a coherent, cohesive economic policy that the market was hoping for.

The devaluation in fact achieved nothing more than a close(r) representation of the then current reality in the foreign exchange markets. The adjustment of the daily trading band from +/-3% to +/-1%, while a sensible move toward a more flexible exchange rate management system in theory, has meant that the official rate is unable to keep up with the weakness in the black market, which continues to soften as nothing whatsoever has been done to address the lack of confidence in the currency. Unless decisive action is taken to stimulate the demand side of the equation in the near future (by, for example, raising deposit rates to attract domestic dong inflows or raising foreign ownership limits in the banks at least to attract foreign funds), there is a danger that the currency continues to drift lower for an extended period and the crisis of confidence in the Dong will eventually turn into a full-scale currency crisis.

On the bright side (yes, we found one eventually), the follow-up statements in the past few days have begun to indicate a real determination to get inflation under control. The statement from the State Bank Governor yesterday morning that the annual credit growth target is to be reduced from 23% to 20% (and further if necessary, to 18%) is most definitely a step in the right direction in terms of addressing the inflationary consequences of too fast an expansion in money supply. This particular medicine may not taste good to everyone but it should ultimately prove effective.

Whilst the impact of restrictions on credit growth are clearly panicking the domestic retail investment fraternity (as evidenced by the weakness in the stock market so far this week), the fall is creating an opportunity for fundamental investors since the stock market (in US$ terms at least) has returned valuations to levels last seen at the 2009 lows.

Vietnam is not yet clear of its macro problems, but for those who are heartened by the increased monetary policy focus and believe that the government has both an understanding of the issues and the determination to resolve them, we firmly believe that it is now time to be dipping a couple of toes into the market. If we continue to soften whilst we await evidence of the return of macro stability (and hopefully confidence) one can average down, but the danger of waiting until such time as everything is hunky dory is that everyone simultaneously recognises the fact and acts at the same time. Then the risks of missing out on a sustained rally begin to outweigh the downside of possibly getting in a little early to a market that is once again relatively, fundamentally & historically cheap.