Vietnam Emerging Equity Fund

Newsletter

– 17 February 2011 –

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.

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Subscriptions:
Monthly

Redemptions:
Monthly (30 Days Notice)

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I• Fund details

Launch Date	3 November 2005
Issue Price	US$ 5.000
NAV per share	**US$ 4.765** as at 28 January 2011
Number of shares in issue	5,676,789
Fund size	US$ 27.05 million
Number of holdings	Listed: 41 Pre-Listed: 3

Performance	1 month	1 Year	2 Years
VEEF*	**-0.105%**	**-14.713%**	+56.23%
VNI**	+5.532%	+0.378%	+51.00%
Performance	**3 Years**	**4 years**	**5 Years**
VEEF*	-54.78%	-60.00%	-6.66%
VNI**	-50.45%	-59.66%	+33.47%

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

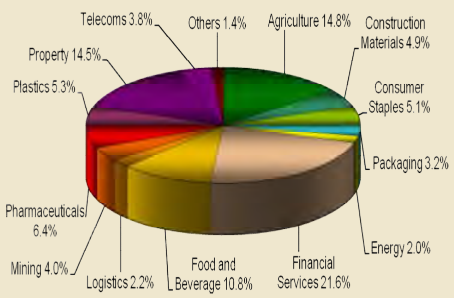
II• Top 10 holdings

	% of Net assets
Sacombank (STB)	10.1
Vinamilk (VNM)	8.1
Dong Phu Rubber (DPR)	7.8
Binh Minh Plastics (BMP)	5.6
SSG Construction*	5.4
Pinaco (PAC)	5.4
Hoa Phat Group (HPG)	5.0
Asia Commercial Bank (ACB)	4.6
PV Fertilizer (DPM)	4.1
Hau Giang Pharma (DHG)	4.1

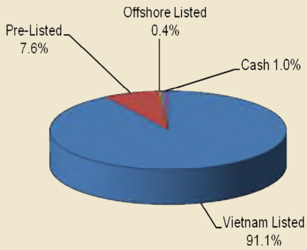
* Pre-listing holding

IV• VEEF portfolio

Sectoral Breakdown (as at 28 January 2011)



Segments (as at 28 January 2011)



III• Investment comment

At the Company's most recent Board Meeting, on 28 January 2011 the Directors resolved to modify the redemption fees of the Fund. Whilst the scaling of charges for redemptions within the first year after subscription was introduced with the best of intentions – to reinforce the long-term investment objective of the Fund by attempting to mitigate the potential disruptions of short-term flows – the Directors were of the opinion that the unusually high fees for redemption in the first ten months would also have the effect of discouraging long-term investors who might be required to change their view during the period for reasons outside of their control. For that reason, redemption fees will be reduced with immediate effect to 3% for the first ten months after subscription, declining to 1% thereafter, which we hope will make investing in the Fund a more attractive proposition going forward.

With the December 2010 Net Asset Value release we promised a "full explanation of the reasons" for the one year under-performance of the Fund's NAV in comparison to the Viet Nam Index; a promise on which we failed to deliver as the amendments to the Offering Documents, which were expected to be ready in time to be covered last month, missed the deadline (as did the January Newsletter itself), for which our apologies.

Whilst this divergence was not wholly unexpected after significant outperformance in 2009, when the Fund's Net Asset Value rose by 82.4% as compared with a 48.3% gain in the Viet Nam Index, the divergence can be better understood by reference to the nature of foreign flows into Vietnam during 2010 and beyond, specifically the emergence of the two Vietnam Exchange Traded Funds ("ETFs"). Over the year to 28 January 2011 the sizes of both the DB FTSE Vietnam ETF (XVTD LN) and the Market Vectors Vietnam ETF (VNM US) increased in terms of outstanding shares by more than 2.6 times. The total flows into those two vehicles were in excess of US$ 400 million during the year, representing the majority of new foreign commitments to the Vietnam Stock Exchanges in the period.

ETFs are by nature quantitative in terms of stock selection, particularly so in Vietnam due to the existence of foreign ownership limits, and comprise shares of companies selected due to size, liquidity and availability. The Fund's portfolio, on the other hand, has been constructed from a much more qualitative aspect with a bottom-up, fundamental research-driven approach and given its longevity has not in the past been constrained to the same extent by foreign ownership limits, with the result that its portfolio is markedly different to those of the ETFs. The ETFs channelled a relatively large amount of money into a small number of index-heavyweight stocks during 2010, distorting index performance and impacting negatively upon the Fund's own relative performance. The DB FTSE Vietnam ETF represents a more relevant comparison with the Fund's own composition as its assets are entirely in Vietnamese equities, whereas the Market Vectors Vietnam ETF has a significant exposure to offshore holdings. During the past 12 months the DB ETF Net Asset Value fell by 6.46% in comparison to the 14.71% decline in the Fund's NAV. The divergence can also be explained to an extent by the different structures of the vehicles; the Fund had a fixed number of Shares in issue during the period, whereas an ETF is an open-ended fund with daily liquidity. In excess of 55% of the DB ETF's current outstanding shares were issued after the two devaluations of the Vietnamese Dong (VND), totalling 5.5% during the period under review, which mitigated the impact of the devaluations on the ETF portfolio to an extent not enjoyed by that of the Fund. Over the longer term we trust that our approach will restore equilibrium.

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