Newsletter

– 23 November 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.

Summary

Portfolio Manager
Kevin Snowball
KHSnowball@pxpam.com

Bloomberg Ticker
PXPVEEF KY <Equity>
ISIN
KYG 936101065

Subscriptions:
Monthly
Redemptions:
Monthly (30 Days Notice)

For more information, please contact:

ARClarke@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. Nº : + (84) 8 3827 6040
Fax Nº : + (84) 8 3827 6043
www.pxpam.com

I• Fund details

Launch Date	3 November 2005
Issue Price	US$ 5.000
NAV per share	**US$ 3.684** as at 31 October 2011
Number of shares in issue	8,325,130
Fund size	US$ 30.67 million
Number of holdings	Listed: 42 Pre-Listed: 3

Performance	**YTD**	**1 Year**	**2 Years**
VEEF*	-22.78%	-19.62%	-43.66%
VNI**	-19.40%	-13.70%	-39.05%
Performance	**3 Years**	**4 years**	**5 Years**
VEEF*	-5.71%	-70.66%	-48.80%
VNI**	-2.88%	-69.75%	-37.04%

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

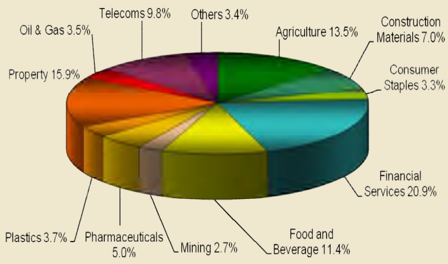
II• Top 10 holdings

	% of Net assets
Sacombank (STB)	9.0
Vinamilk (VNM)	8.7
FPT Corp (FPT)	7.2
Hoang Anh Gia Lai (HAG)	6.5
Dong Phu Rubber (DPR)	6.0
Hoa Phat Group (HPG)	4.6
PV Fertiliser (DPM)	4.1
SSG Construction*	3.9
HCMC Securities (HCM)	3.7
Binh Minh Plastics (BMP)	3.6

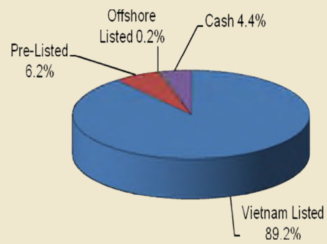
* Pre-listing holding

IV• VEEF portfolio

Sectoral Breakdown (as at 31 October 2011)



Segments (as at 31 October 2011)



III• Investment comment

Whilst Vietnam's stock market performance vis-a-vis regional indices month-to-date is broadly comparable, the drivers are quite different as the local market continues to march to the beat of its own somewhat discordant drum.

The Viet Nam Index is now attempting to rally from a 2 ½ year closing low (set just 2 days ago), albeit against the headwinds of forced margin-related selling as banks reduce "non-productive" loans in order to comply with the State Bank-directed 16% limit (as a proportion of total outstanding loans) by year end. A near 10% fall across the first fifteen trading days of the month has been halted, at least temporarily whilst we await November's CPI number, expected to come in roughly in line with October's 0.36%. The current respite has less to do with the recognition that a fourth consecutive sub-1% return will mean that the annualised inflation figure based on the past six months' data is below 10% than with an indication from the State Bank that if next month's CPI headline number is again below 1% interest rates may start to be eased thereafter.

We do not feel, given the short-term investment horizons of the vast majority of participants in this market, that this is necessarily the start of a sustainable rally but it might be worth reiterating the reasons for our continuing to hold the view that such a beast might not be too far distant.

Whilst the world appears to be seeking glimmers of light in an era of financial darkness we do not expect any external rally to be mirrored by a macro or fundamentals-led advance onshore in the remainder of this year as Vietnam is simply too far down the scale of acceptable risk to justify allocations this close to the year-end by any but the boldest off-benchmark investor (singular intentional). On 1 January, however, 366 pristine pages will be revealed in the world's 2012 diaries (if anyone still utilises such arcane technology) and it may then be time to consider new and more exciting horizons. So why should that include Vietnam? Our top-2 reasons:

- The local macroeconomic environment is moderating even as the rest of the world tries to determine the depth of the abyss below Europe. Vietnam's 2012 inflation is likely to be at least 50% lower than the recent year-on-year peak, with continued strong export growth and enhanced onshore refining capacity likely to result in further improvements in the trade deficit; currency stability may be enhanced by the foregoing as well as via the emergence of a domestic institutional sector with onshore mutual and pension funds permitted next year (and denominated in Vietnamese Dong);
- The forced-selling nature of recent weakness has pushed local listed equity valuations to an all-time low, so that on 7 times 2012 earnings Vietnam now qualifies as one of the two cheapest markets in the world (along with Russia, I am reliably informed). GDP growth is expected above 6% in 2012 driven by export growth, domestic demand and foreign direct investment and this should underpin earnings.

So, according to us, the stock market is cheap and the economic outlook is improving. So what? Those two factors do not automatically mean that any market must go up given that they do not exist in a vacuum, and the current global investment malaise counts against it. However if one is able to contemplate Vietnam's as an occasionally non-correlated index coming out of a 4-year bear market that has battered it's benchmark by 74.7% in US$ from its all-time high it may well be time to take a serious look in the near future. Timing IS important in a market that remains pretty tiny in global terms, and if in a few short weeks the outlook for more adventurous allocation may improve one might make an argument for attempting to beat a potential rush and squeeze by shopping early for the holidays in this market as in life. Further, since selling to meet a year-end deadline imposed by an external agency (the State Bank) will naturally abate by the close of business on New Year's Eve there may be little overhead resistance to a more improved domestic outlook in 2012. We do not expect domestic players to become fundamental long-term investors by way of New Year's resolution so we caveat that our thesis likely depends on increased participation by foreigners but it seems that a little beeping dot labelled "Vietnam" is starting to appear on a few more radars.