PXP VIETNAM FUND LTD

Newsletter

– 11 September 2012 –

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$ 4.153** as at 31 August 2012
Number of shares in issue	12,000,000
Fund size	US$ 49.83 million
Number of holdings	Listed: 42 Pre-Listed: 0

Performance	**YTD**	**1 year**	**2 years**
PXPVF*	**+24.98%**	**+16.59%**	**-3.28%**
VNI**	+13.94%	-6.59%	-18.44%
	3 years	**4 years**	**5 years**
PXPVF*	**-22.81%**	**-18.14%**	**-56.87%**
VNI**	-37.92%	-41.62%	-65.95%
	6 years	**7 years**	**8 years**
PXPVF*	**-12.22%**	**+69.23%**	**+74.13%**
VNI**	-37.91%	+18.76%	+29.16%

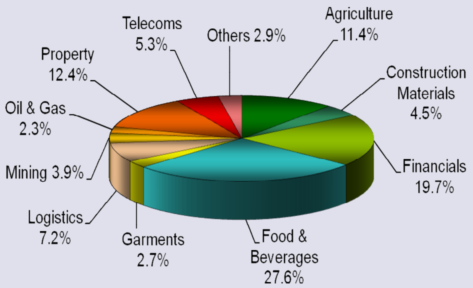
* All figures are NET of fees ** Index performance in US$

II• Top-10 Holdings

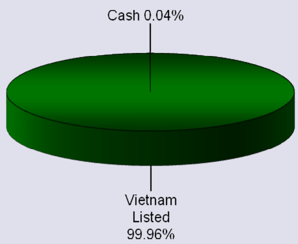
	% of Net assets
Vinamilk (VNM)	24.8
Sacombank (STB)	11.2
REE (REE)	6.5
FPT Corporation (FPT)	5.2
HCMC Securities (HCM)	4.4
Hoang Anh Gia Lai (HAG)	4.1
Dong Phu Rubber (DPR)	3.9
Hoa Phat Group (HPG)	3.9
Southern Seed Corp (SSC)	3.5
Transimex (TMS)	3.1

IV• PXPVF Portfolio

Sectoral Breakdown (as at 31 August 2012)



Segments (as at 31 August 2012)



III• Investment Comment

As everybody knows, markets don't like uncertainty and the local bourse is currently suffering from a surfeit of such, from two distinct sources:

1. The level of system non-performing loans is, perhaps somewhat belatedly, causing grave concern within government. A 298-page report from the National Assembly's economic committee ("NAEC") released on 4 September 2012 and covered fairly extensively by Bloomberg a couple of days later included a warning that Vietnam "must act quickly to clean up bad debt or risk "prolonged stagnation"". The possibility of seeking an International Monetary Fund ("IMF") rescue loan (read "bailout") to the extent of US$ 12 to 15 billion in order to recapitalise the banking system was mooted, which understandably caused some mild consternation; no-one goes cap in hand to the IMF unless they absolutely have to because all other alternatives have failed;
2. A new round of arrests this past weekend, albeit of some seemingly relatively junior people outside of the banking sector has revived concerns that the purge is not contained to what is now being referred to as the "hostile" takeover of Sacombank (**STB**), allegedly (since we are still awaiting the results of the investigation which was - we thought - due to be released at the end of last month) by Mr. Kien and (alleged) cronies.

All good grist to the mill of uncertainty, if such a thing exists, but as from crisis so from uncertainty comes opportunity, and if one is able to look beyond current turmoil with the view that recognition of a problem is the first step to its resolution then hopefully we are at least approaching the entrance to the correct path.

The banking system undoubtedly needs rationalisation to prevent a recurrence of the (alleged) directed lending to self-interested cross holders of equity, but more importantly a major recapitalisation of the banks themselves is urgently required, as the NAEC pointed out with a statement that might be interpreted as a warning that "we need to sort this out right now or we're screwed". Apologies for the use of the vernacular but we couldn't immediately think of a less vulgar epithet to give full colour to our reading of the situation.

The issue is how to achieve a recapitalisation without creating a scenario which potentially results in good money being thrown after bad. Merely handing over a big pile of cash to the people who created the situation in the first place doesn't make a great deal of sense to us, and whilst we accept that no-one particularly cares what we think, we like the following solution if it can be sold to external sources of capital: Encourage foreign strategic (ie. bank) investors to buy up to 15 or 20% of the expanded share capital of individual banks via a negotiated transaction and at the same time; (i) increase the single investor limit in banks from 20 to 30%; (ii) allow (or perhaps legislate) real involvement of such foreign investors in the management and credit control of the banks, and; (iii) raise the overall foreign ownership limit to 49% to encourage portfolio investment alongside the strategic investor. Higher share prices will facilitate future cash raising without waiting for the doomsday scenario to return.

Whilst it is unlikely that all 30-odd banks will attract such recapitalising bids the number can be reduced by excluding any (and let's hope there are some) that don't need it. Once the first cut is complete, the strong banks should be permitted to merge with banks which did not attract new capital or the latter should be made good (and then closed) out of - but with a significantly lower contribution from - the state budget. A simple Takeover Code, defining the ramifications of hostile and friendly bids and including the consequences of acting in concert would ensure that such actions are transparent and fair.

A short word on Uncertainty # 2 (above): one of the local brokers today described the arrests as a "crackdown by the Government on corruption and influence peddling". Surely that's not a bad thing if that is in fact what's going on?

In summary; the market is jittery due to the current uncertainty but the country should ultimately benefit from decisive action to improve the macroeconomic environment, and therein lies the opportunity. Long-term bulls should be taking advantage.