

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.

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Portfolio Manager
Kevin Snowball

Bloomberg Ticker
VNF LN <Equity>

ISIN
KYG7301W1033

Market Makers
HSBC:

Hugh Harvey-Kelly
+44 207 991 5241

Jefferies International:
Mark Mulholland
+44 207 898 7106

Bloomberg JJFD
LCF Rothschild:
Johnny Hewitson
+ 44 207 845 5960
Bloomberg LCFR

NUMIS:
David Cumming
+44 207 260 1376
Bloomberg NUMS
Seymour Pierce
Leti McManus
+44 207 107 8095

PXP VIETNAM ASSET MANAGEMENT

PXP Vietnam Asset Management
Vietnam Representative Office
6th Floor, Opera View Building
161 Dong Khoi, District 1
Ho Chi Minh City, Vietnam

Tel. N^o. + (84) 8 3827 6040
Fax N^o. + (84) 8 3827 6043
www.pxpam.com

I Fund details

Launch Date	31 December 2003		
Issue Price	US\$ 2.50		
NAV per share	US\$ 3.562 as at 31 August 2011		
Number of shares in issue	12,000,000		
Fund size	US\$ 42.74 million		
Number of holdings	Listed: 40 Pre-Listed: 0		
Performance	1 Month	YTD	1 Year
PXPVF*	7.354%	-16.27%	-17.05%
VNI**	3.434%	-17.98%	-12.69%
Performance	3 years	5 years	7 years
PXPVF*	-29.79%	-24.71%	+49.35%
VNI**	-37.51%	-33.53%	+38.27%

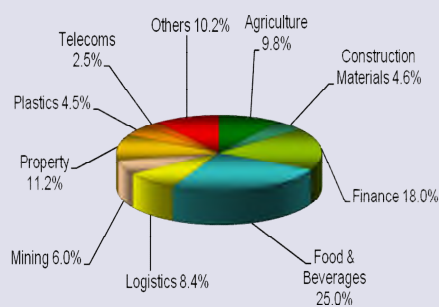
* All figures are NET of fees ** Index performance in US\$

II Top 10 holdings

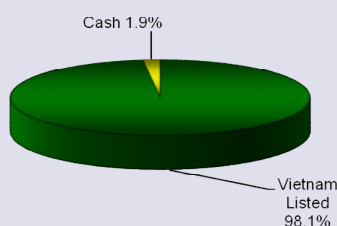
	% of Net assets
Vinamilk (VNM)	23.4
Sacombank (STB)	12.3
REE (REE)	6.6
Dong Phu Rubber (DPR)	4.7
Binh Minh Plastics (BMP)	4.0
Binh Duong Minerals (KSB)	4.0
HCMC Securities (HCM)	3.9
Hoa Phat Group (HPG)	3.6
Gemadep (GMD)	3.0
Transimex (TMS)	2.9

IV PXPVF portfolio

Sectoral Breakdown (as at 31 August 2011)



Segments (as at 31 August 2011)



III Investment Comment

Somewhat improbably given the parlous state of the world's financial markets the Viet Nam Index moved into a technical bull market last week after a broad-based 20% bounce from the lows. Today marked the first down day after 13 consecutive rises, albeit after setting an intra-day rally high at 475, some 25% above the 11 August low. Turnover has tripled since mid-August suggesting that there is conviction behind the move and pull-backs are likely to be viewed as buying opportunities, at least in the short-term, by those worried about having missed the boat.

As with all such dramatic reversals the precise rationale is unclear but we would suggest the following as catalytic contributors:

- Recognition of a more benign inflation outlook with MoM CPI expected to record a 2nd consecutive sub-1% release in September
- State Bank announcements targeting lower interest rates for the rest of this year whilst monetary policy is to remain "tight". External observers are nervous about the contradictions inherent in this apparent easing as potentially too early a move given continued high (albeit moderating) inflation numbers.

We have had a clear and oft-stated position regarding the former for several months now, whilst in terms of the latter we are of the opinion that absolute interest rate levels are less relevant than their impact on credit growth and NPLs. System wide credit growth was 9.2% year-to-date to the end of August; anything below 15% for the full year is acceptable under most commentators' benchmarks. From a contrarian stance lower interest rates may actually have a positive impact on the level of problem loans within the system if one is prepared to concede that only the most desperate borrowers are willing to pay 25% for funding and that those borrowers might be regarded as least likely to be able to repay their loans. If YOY inflation is 23%, higher quality borrowers are more likely to take advantage of negative real interest rates at 17-18%, and banks get to be more selective.

None of the above even touches upon our fundamental view that the market was and remains very cheap: our universe (112 stocks representing 91% of market cap) is on 9.3x 2011 and 7.7x 2012 earnings. Ex- the usual suspects (BVH, MSN & VIC) the 109 stocks are on 8.0x & 6.6x earnings respectively.

For us, the most interesting dynamic is the stake-building / quiet M&A activity percolating in and around the market. We recently sold the Fund's entire 4.6% holding in a packaging company (TTP), 41% above its price at the low. A sale we were more than happy to make given our negative view on the stock and its lack of prior liquidity. We have several similar situations in the early stages of negotiation, leading us to conclude that value has been spotted by strategic if not portfolio investors and that this will continue to underpin individual stocks if not the whole market.

As to the extent of the rally local commentators are setting targets between 520 and 600 by year-end. Not a game in which we feel any inclination to participate, and since we are on record from mid-2010 saying that the index would return to 1,000 within 2 years we have 10 months to be proved wrong on that. We would say that we are unlikely to reach those heady levels unless or until international investors climb on board in a 2006 kind of way and global conditions are not currently supportive. Sixteen times 2012 forward earnings (ie. a bit more than double the current index level by July next year) is not much of a stretch in a bull market, particularly in one which has historically (ie. twice) peaked north of 35 times current year earnings. We'll see; in the meantime we are finally enjoying a ride, and trust that Shareholders are enjoying the distraction.