Newsletter

– 17 December 2010 –

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

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I• Fund details

Launch Date	3 November 2005
Issue Price	US$ 5.000
NAV per share	**US$ 4.461** as at 30 November 2010
Number of shares in issue	1,589,362
Fund size	US$ 7.09 million
Number of holdings	Listed: 33 Pre-Listed: 1

Performance	1 month	YTD	1 Year
VEEF*	**-2.662%**	**-21.04%**	-20.05%
VNI**	-0.235%	-13.50%	-15.08%

Performance	2 Years	3 years	4 Years
VEEF*	+23.30%	-63.24%	-46.73%
VNI**	+24.89%	-61.78%	-41.21%

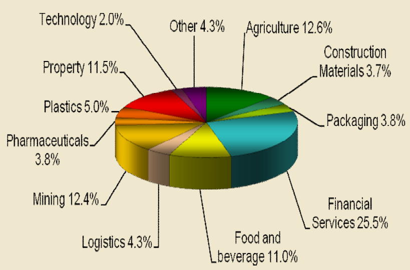
* All figures are NET of fees ** Index performance in US$

II• Top 10 holdings

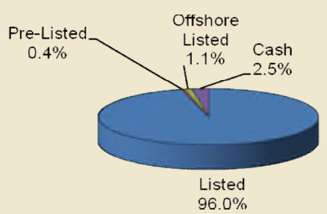
	% of Net assets
Sacombank (STB)	19.7
Vinamilk (VNM)	12.2
Dong Phu Rubber (DPR)	10.5
Song Da Urban (SJS)	8.0
Binh Duong Minerals (KSB)	8.0
Binh Minh Plastics (BMP)	6.7
Nui Nho (NNC)	6.7
Tan Tien Package (TTP)	5.2
HCMC Securities (HCM)	5.0
Southern Seed (SSC)	4.3

IV• VEEF portfolio

Sectoral Breakdown (as at 30 November 2010)



Segments (as at 30 November 2010)



III• Investment comment

What a difference a couple of weeks makes. The Viet Nam Index reversed direction on 22 November 2010 having tested and held technical support at 420 for the second time in 3 months. Perhaps inevitably, this happened at a time when most commentators were focused solely on the level of the index rather than the far more interesting valuations of individual stocks; a somewhat illogical approach in a market where "buying the index" requires the inclusion of 270 individual shares in a basket absent local index derivatives.

Three short weeks and almost 20% of upside later and it seems that the bears have all sprouted horns, with the bar from our long-term expectations previously derided as hallucinatory now being raised almost daily in the clamour to make headlines. We are now beginning to even look a little conservative in our 1,000 VNI mid-2012 forecast, but at the very least it seems that the outlook is far more positive for next year than it has been for the majority of this.

The macroeconomic concerns highlighted in our recent Market Commentary have not magically disappeared, of course, but confidence in the government's ability to resolve the issues, coupled with a more optimistic outlook on the continuation, if not acceleration of market reforms post the forthcoming elections is palpably on the rise.

In our opinion the restoration of an orderly market in the foreign exchange arena is the most pressing issue and needs to be urgently addressed in order for Vietnam to continue along the path of full integration into the global economy. We do not feel that Vietnam is necessarily in the middle of a currency crisis *per se*, but there is undoubtedly a crisis of confidence in the currency. The "peg" to the US$ is clearly broken and needs to be fixed sooner rather than later through decisive action.

Obtaining US$ at the official rate is currently next to impossible. If one is willing to take a hit of close to 8% dollars are freely available by going "through" a third currency (generally Euros) where the exchange rate is not regulated. Undoubtedly some banks which receive US$ inflows (which they are required to convert at the official rate) will then exchange these dollars for Euros at the prevailing market rate (since as far as we know those two currencies are still freely convertible on the global foreign exchange markets) before selling to parties desperate to divest themselves of VND at the black market rate. Great windfall profits for the banks, not so good for local currency stability or Vietnam's international image.

There are, in our humble opinion, two obvious ways to address the situation, as follows:

1. Devalue the currency once again, to bring the official rate in line with the black market rate. Then a new cycle of weakness can begin, leading to future pressure for a repeat, OR (and this is our personal favourite as a long-term fix);
2. Ban (and enforce through punitive sanctions) the conversion of any currency other than US$ into VND for a period long enough to give the government time to design and adopt a peg to a basket of currencies rather similar to that used by Singapore, where the composition of the basket is not published and can therefore be adjusted as necessary.

A third possibility (which we do not seriously suggest as we would open ourselves to accusations of self-interest given the composition of the Fund's portfolio), would be to open the market to more foreign participation by raising ownership limits either generally or in specific sectors such as banks (which, in the latter case is not only rumoured but due and justifiable under the terms of the US Bilateral Trade Agreement from 2001). Improved access might have the impact of attracting sufficient foreign currency inflows to force the black market rate back in line with the official rate, but there are no guarantees of its effectiveness.

Whatever happens, we wish our reader Happy Holidays and a more interesting Vietnam investment environment in 2010.