Newsletter - February 2008 -

VIETNAM EMERGING EQUITY FUND

Vietnam
Emerging Equity
Fund Limited (VEEF)

A Cayman-domiciled closed-end fund listed in Ireland. 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$ 10.537** as at 31 January 2008
Number of shares in issue	7,663,750
Fund size	US$ 80.8 million
Number of holdings	Listed: 32 Pre-Listed: 10

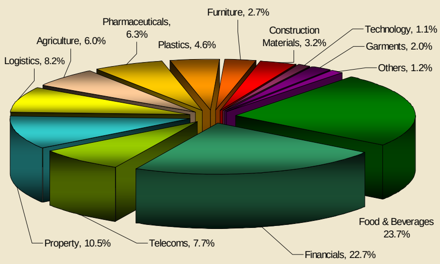
Performance	**1 month**	**3 months**	**6 months**
VEEF	-9.956%	-16.09%	-4.357%
	1 year	**2 years**	**Inception**
	-11.54%	+106.4%	+110.7%

II• Top 10 holdings

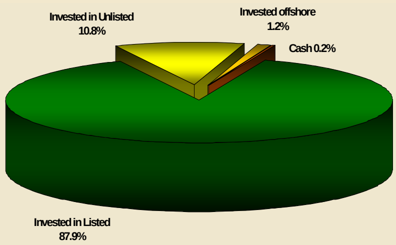
	% of Net assets
Sacom Bank (STB)	16.5
REE (REE)	9.2
Sacom Cable (SAM)	8.2
Vinamilk (VNM)	7.1
Gemadept (GMD)	7.1
Binh Minh Plastics (BMP)	4.9
Agifish (AGF)	4.8
Imexpharm (IMP)	3.3
North Kinh Do (NKD)	3.1
Viet Fund (VF1)	2.9

IV• VEEF portfolio

Sectoral Breakdown (as at 31 Jan 08)



Segments (as at 31 Jan 08)



III• Investment comment

Performance in January 2008 was the worst in the Fund's two-and-a-quarter year life, and the first month that we have underperformed the index to the downside. We apologise unreservedly and will do our best to ensure that neither statistic is repeated. Over 12 months we have managed to extend our out-performance, however, and hope that a dismal January return is somewhat mitigated from a longer-term viewpoint.

The market began this week (ending 22 February 2008) with a decidedly negative reaction to the state bank's decision to remove US$ 1.3 billion of liquidity from the system. Notwithstanding our long established reluctance to disagree with generally accepted wisdom (as our regular reader will appreciate), we actually consider such a decisive anti-inflationary move positive for the economy as a whole, irrespective of whether or not it might ultimately be proven less effective in solving the problem than a more flexible approach to foreign exchange controls. We also interpret the absence of renewed whispers of a relaxation of margin lending restrictions as evidence that the stock exchange pressure regulators intend to expand their armoury beyond that single weapon. We recall several examples over the years in support of the view that when it all goes quiet at t' rumour mill the results of a period of quiet reflection by the authorities are generally positive for the long-term development of the market. On our wish list (with very firmly crossed fingers):

- Stricter regulation regarding share issuance by listed companies (in particular the prohibition of "we want to punt the stock market" as an acceptable rationale for dilution);
- The testing of the impact on demand of a reasonable starting price at the initial auction of an equitising state-owned enterprise. Just one, please, just to see what happens;
- The removal of the foreign-ownership limit for listed stocks in "non-sensitive" sectors. We still haven't quite figured out how one of last month's rumoured market support measures - that of removing the limit for *non-listed* stocks - could have been effective in achieving its goal outside of some strange parallel universe where logic doesn't exist.

Time to use the F-word?

In any event, continued weakness in the market year-to-date is starting to make the market look more interesting, even (dare we say it) selectively cheap on a relative basis. We are, of course, referring to "fundamentals" in bold above. Not, it would seem, a word that has yet been accurately translated into Vietnamese but one that we feel now deserves consideration for inclusion in the local vernacular.

As of the end of January 2008, Merrill Lynch's strategists reported that, among its "overweight" markets India was selling on 17.9 times 2008 earnings, China (not, we assume the A share variety) on 14.7 times, the Philippines on 13.9 times and Pakistan on 10.1 times. The only frontier market among those is the last so we should probably use that as the peer group comparative. Given that it is so much cheaper than Vietnam's current 17.2 times one might assume that we lose the argument before it gets started. Call us naïve, but shouldn't there be a political stability premium in there somewhere? In Vietnam no-one assassinates opposition candidates (it helps not having opposition, obviously) nor does anyone go around blowing themselves (or anything else) up in order to make a political (or is it religious?) statement. Let us say, for argument's sake, that the premium should be 50%. There are over 50 companies listed on the Ho Chi Minh City stock exchange which currently trade on a 2008 multiple of 15 times or less. Most are rather small (some extremely so), but that number includes 10 companies with a market capitalisation in excess of US$ 100 million. Look a little deeper and it is possible to discover EPS growth superior to Pakistan's forecast 13.9%, particularly now that share issuance has been reined in. All things considered we feel that downside should be limited from here and would not be surprised if the authorities are ready to announce positive and far-reaching measures to restore confidence in the market before the end of the quarter.