Vietnam Emerging Equity Fund

Newsletter – 28 March 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

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I• Fund details

Launch Date	3 November 2005
Issue Price	US$ 5.000
NAV per share	**US$ 4.014** as at 28 February 2011
Number of shares in issue	5,618,881
Fund size	US$ 22.54 million
Number of holdings	Listed: 41 Pre-Listed: 3

Performance	YTD	1 Year	2 Years
VEEF*	**-15.85%**	-27.47%	+51.99%
VNI**	-11.10%	-15.17%	+57.18%

Performance	3 Years	4 years	5 Years
VEEF*	-51.11%	-68.85%	-30.61%
VNI**	-46.93%	-68.93%	-10.00%

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

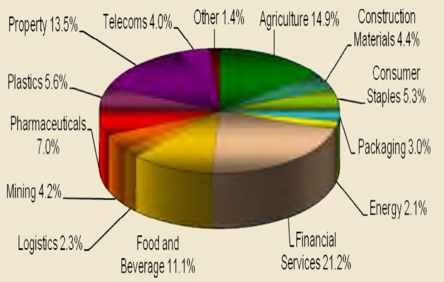
II• Top 10 holdings

	% of Net assets
Sacombank (STB)	10.3
Vinamilk (VNM)	8.6
Dong Phu Rubber (DPR)	8.4
Binh Minh Plastics (BMP)	6.2
Pinaco (PAC)	5.8
SSG Construction*	5.8
Asia Commercial Bank (ACB)	4.7
Hoa Phat Group (HPG)	4.6
Hau Giang Pharma (DHG)	4.4
PV Fertilizer (DPM)	3.9

* Pre-listing holding

IV• VEEF portfolio

Sectoral Breakdown (as at 28 February 2011)



Segments (as at 28 February 2011)

III• Investment comment

We have recently returned from a 3-week marketing trip to Europe, arranged to coincide with the excellent LCF Rothschild Emerging Markets Conference. Our Presentation from the conference is available at the home page of the website (www.pxpam.com) and we would like to provide a brief synopsis of the investment thesis contained therein for those whom we were unable to meet on our travels:

In essence, we have been encouraged by the increase in foreign interest in Vietnam after a near four-year hiatus, with the consensus view a recognition that the Vietnam market is now extremely cheap in both historical and regional-relative terms from a valuation perspective and is therefore once again worthy of consideration. However, most investors currently seem to prefer to await a resolution of the pressing macro issues (mainly high inflation and a weak currency) before moving from the sidelines.

In our opinion, recent policy moves by the government, reflecting a determined change of primary focus from "growth above all, irrespective of the cost" to a platform of increasingly coherent and cohesive monetary and fiscal policies, designed to tame inflationary pressures and promote currency stability, are beginning to show the first signs of a restoration of confidence, as evidenced by a steady narrowing of the differential between the official and black market exchange rates. Early signs suggest that the inflationary cycle may have peaked with the release of March 2011 CPI data earlier this week and we expect to see further improvements in sentiment as headline CPI moderates over the next few months. As we have regularly posited, the main concern in Vietnam in a global inflationary environment is one of *confidence* in the government's determination and ability to manage the economy, and we feel that we can now at least see the corner if we haven't yet necessarily started to turn it.

If one is prepared to look beyond the immediate macro issues the longer-term story is intact, with Vietnam still benefitting from the three "golden" economic drivers: a strong domestic economy (evidenced by retail sales and industrial production growth); increasing exports (beginning to narrow the trade gap as imports grow at a slower rate); and consistently strong FDI flows which are improving in quality as Vietnam begins to move up the value chain.

Moving down a level, the micro picture provides further comfort. With corporate earnings growth continuing at around 20% on a weighted average basis through at least 2011 (and selectively well beyond that), the market is cheaper than it was at the 235 VN Index low back in February 2009. The 9.4 times 2011 earnings referred to on slide 6 of the presentation is also calculated as a weighted average, and if one discounts the outliers on slide 10 (known as "the Big Balls Slide") the rest of the market is significantly cheaper even than that. By measuring the broad market the index is, at 8 times 2011 earnings, at historic lows ("history" having started in January 2006 when Vinamilk debuted and took total market capitalisation beyond US$ 1 billion for the first time and overseas investors noticed that Vietnam had a stock exchange, or 2 to be precise).

Whilst we understand the prudence inherent in the view that suggests patience in waiting for the resolution of the macro issues, we would remind observers of the dangers of crowd behaviour in a market that remains extremely limited in size in global terms. Those that remember the impact of the strong wave of foreign flows into the Vietnamese market in late 2006 and early 2007 will recall how difficult it can be to get in to the market when everyone else is trying to do the same, and how profitable for those already invested. Our view is that for the slightly contrarian investor a staggered investment strategy might prove a more effective path for entry. We feel that if one is convinced that the government is on the right path in terms of monetary policy, and that increased confidence in its ability to manage the economy will promote currency stability then, although this may not be the absolute bottom, a commitment of a portion of the amount ultimately destined for Vietnam should be considered in the short term, with the balance deployed in the coming months as confidence improves.