Newsletter

– 28 September 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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Subscriptions:
Monthly
Redemptions:
Monthly (30 Days Notice)

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I• Fund details

Launch Date	3 November 2005
Issue Price	US$ 5.000
NAV per share	**US$ 3.898** as at 31 August 2011
Number of shares in issue	6,921,870
Fund size	US$ 26.98 million
Number of holdings	Listed: 42 Pre-Listed: 3

Performance	YTD	1 Year	2 Years
VEEF*	-18.30%	-18.54%	-33.14%
VNI**	-17.98%	-12.67%	-33.54%
Performance	**3 Years**	**4 years**	**5 Years**
VEEF*	-30.26%	-65.41%	-42.83%
VNI**	-37.51%	-63.55%	-33.53%

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

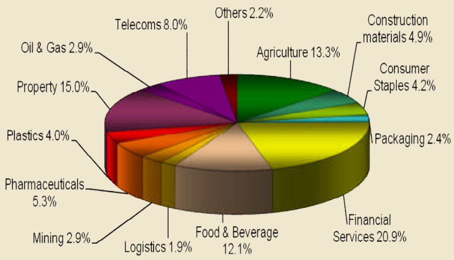
II• Top 10 holdings

	% of Net assets
Sacombank (STB)	11.1
Vinamilk (VNM)	8.7
Dong Phu Rubber (DPR)	6.5
Hoang Anh Gia Lai (HAG)	5.0
SSG Construction*	4.7
FPT Corp (FPT)	4.2
Pinaco (PAC)	4.1
Binh Minh Plastics (BMP)	3.9
Asia Commercial Bank (ACB)	3.8
Saigon Post & Telecom*	3.6

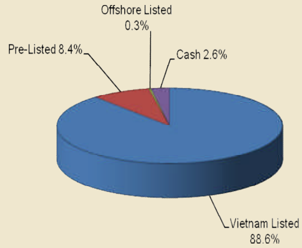
* Pre-listing holding

IV• VEEF portfolio

Sectoral Breakdown (as at 31 August 2011)



Segments (as at 31 August 2011)



III• Investment comment

The extent to which Vietnam is able to continue to resist the gravitational pull of global markets remains to be seen, but its relative isolation from the world economy (at least in the sense of having no exposure to European sovereign debt or to the financial institutions that own it) has enabled the Viet Nam Index (VNI) to disassociate itself from recent turmoil.

Macro data continues to improve with the following indicators worthy of note:

- September 2011 month-on-month CPI came in at 0.82%, after 1.17% in July and 0.93% in August. For the 12 months to September 2011, inflation was running at 22.4%. Still an unacceptably high number but the fall from 23% in August 2011 does represent the first month in which the annual rate has slowed since August 2010, and may prove worthy of attention if the trend continues;
- GDP growth for the first nine months of 2011 is running at 5.76% (Q1 5.43%; Q2 5.67% and Q3 6.11%). The gradual acceleration through the year suggests that the government's 6% full-year target remains achievable if the recovery continues into the remaining quarter;
- The trade deficit has widened by less than US$ 300 million for the four months since the end of May 2011, leaving us with a running total deficit for the year-to-date to end-September of US$ 6.8 billion in spite of the February 2011 devaluation, or possibly as evidence that it worked. At the current run-rate there is a chance that the full year figure comes in below US$ 10 billion, a good US$ 2 to 4 billion lower than earlier forecasts;
- Exports for the first nine months of 2011 are up 35.4%, with imports 26.9% higher over the same figure. Global trade slowdown? Not for Vietnam, at least not yet;
- The Vietnamese Dong (VND) has softened slightly in the past month or so after six months of stability, but we do not see this as necessarily a resumption of the cycle of weakness.

Commentators, both local and foreign, often seem to view Vietnam's economic issues in a vacuum rather than placing them in a regional or global context. During the month of September, for example, to the time of writing, the Singapore Dollar (SGD) has weakened against the US Dollar (USD) by approximately 7.7%; the Indonesian Rupiah by 6.1%; the Thai Baht by 3.3% and the Philippine Peso by 2.9%. The official rate for the VND against USD is unchanged month-to-date. The one week non-deliverable forward (NDF) rate against the VND (now seemingly regarded as a more accurate indication of the real exchange rate than the official one) is a shade over 1% weaker; the one month NDF indicates a further weakening by 2.4%. The reasons for the weakness may be different in Vietnam than elsewhere, but local context does not currently appear to us to presage catastrophe. Weakness toward the end of the year is likely as USD debt repayments fall due; in Vietnam that is generally interpreted as a negative rather than as an example of prices being marked up ahead of a predictable increase in demand.

The greatest danger for the economy clearly lies in easing off of the monetary policy brake too early; two months of sub-1% month-on-month inflation, whilst extremely encouraging for the outlook is not necessarily a signal that the issue is resolved; turning the liquidity tap on before long-term confidence is restored through consistent application of the current coherent policy may result in a reversal of the emerging trend toward lower inflation.

All-in-all we feel that Vietnam is faring reasonably well during this year's global financial crisis, both from a macroeconomic perspective and in terms of stock market performance. The concept of Vietnam as a "safe haven" is patently absurd given its less-than-diminutive size but the market must at some stage have an early appeal for off-benchmark investors if it continues to march to its own drum.

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