

Market Update

CPI rises above annual target

CPI increased 0.53% in December, closing the year at 18.13%. Driving prices higher this month was Garment and Footwear prices, followed by Food and Food Stuff. Absent Food & Food Stuff (40% of the CPI basket), 2011's inflation would only have been 7.8%. Vietnam's underdeveloped farm economy and inefficient food distribution system are much to blame. For 2012, ADB forecasts inflation will slow to 11%.

Overseas remittances far exceed 2010

SBV overseas remittances estimates for 2011 are between USD 9-10bn, exceeding the USD 8bn received in 2010.

Higher GDP growth expected in 2012

For the first 6 months of 2011, GDP grew at 5.6% and is predicted to be 5.8% for the year. If achieved, GDP for 2011 is estimated to be USD 119bn (about USD 1,300 per capita).

VND devalued twice this month

With the dong unchanged since October, the SBV twice adjusted the dong this month. Since October 5th, the dong has been adjusted by 200 VND, equivalent to 0.975%, which is almost the maximum (1%) adjustment permitted till the end of 2011. The reference rate is now 20,828 VND per USD. Year-end dollar demands are pressuring the dong downward.

Real Estate revival efforts

In December, the Prime Minister issued Directive 2196 as a measure to curb speculation in the real estate market and resolve its imbalance of supply and demand. Addressing these issues, the directive asks the SBV to reduce growth and proportion of property loans, credit institutions to adopt suitable credit policies, and to review and continue to lend to construction projects expected to be completed in 2012.

Deposit rate cap to remain

Interbank lending rates have come down from October's highs of 30-40%, to a more manageable 14-15% thanks to decreased default risk through the use of collateralized lending. The SBV has negated rumors circulating of a decrease in the 14% cap, and in fact, approaching holidays cash demands have some banks fearing liquidity shortages, thus offering deposit rates above the cap. Lending rates at most banks remain at 17-20%.

Credit growth below target

In 2011, credit grew at a rate of 12%, missing the 20% growth target. Money supply has also missed its target of 15% growth, reaching only 10% growth for the year. Vietnam's Prime Minister was quoted as saying that 2012's credit growth rate should be in the 15-17% range to accommodate 9% inflation. State-owned banks had voluntarily limited their growth in accordance with monetary policies; small banks however, were limited due to their liquidity issues.

Electricity price likely to see further increases

Timed to not be included in December's CPI, electricity prices increased 5% on December 20th; a first in nearly 9 months. The new average price will be approximately 6.2 cents per kWh. The rate hike was said to be necessary to offset unexpected costs of purchasing power from oil-fuelled power plants. While Vietnam currently enjoys one of the lowest electricity rates in the region, it is expected rates will increase over 10% in 2012.

2012 forecasted trade deficit to exceed 2011

As of November, the trade deficit for the year was USD 8.9bn, nearly reaching the Ministry of Industry and Trade targeted deficit of USD 10bn for 2011. Forecasted deficit for 2012 is expected to be higher than 2011 at USD 13bn.

Markets

Closing at 351.55 in December, the VN-Index returned -7.65% for the month, while the HNX shed only -2.86%. The VN-Index is now at levels not seen since the rally in 2009. With downward pressure on gold, has some investors could be eyeing some short term profit opportunities in the commodity and thus transitioning out of equities.

Stock Exchanges to merge

The HCM and Hanoi Stock exchange will merge and form a single exchange, operating in accordance with international standards. Vietnam's minister of Finance was quoted as having said that the markets (when including the unlisted public companies market) have the market fragmented with inconsistent management and disclosure. Details to be forthcoming in Q1, 2012 with the merger taking place during 2012-2015.

Our view

The improvements in Vietnam's macroeconomic data failed to lift the market. Despite declining inflation, closing trade gap and relatively stable currency, the

market continued to slide this month. Global economic challenges did not help either as investor sentiment remained dampened, and flight to quality means cutting down on or exiting from frontier markets altogether. We believe 2012 will continue to be challenging for Vietnam as the Government still has to combat the inflation, trade deficit and FX trio, while attempting to bring down lending rates to revive businesses. We also expect the banking reform to take place on a larger scale and this certainly requires a fine balancing act from the Central bank. If the Government goes on steady with macro policies and domestic demand remains healthy in 2012, we think a gradual economic recovery can be expected.

For the business community, achieving earnings growth in 2012 will be an ambitious goal under the current high interest rate environment. Restructuring business operations, divesting from non-core activities, reducing debt, focusing on inventory and accounts receivable risk management are essential for firms to succeed. Of course leading companies in different industries will have ample opportunities to do M&A, and companies with low gearing and ability to raise capital at this time will have an edge over their competitors in expanding capacity and win market share.

Currently, consolidations in the financial sector have been making headlines as the first merger of 3 private banks will begin operation in January 2012. This is likely only the first of a wave of M&A's to come in 2012 as smaller banks will be merged or taken over as per the SBV's direction. As investors, we therefore look forward to the positive outcomes of these structural reforms.

Based on analyses of circumstances detailed above, our view is that the stock market will be stagnant for a while, for many investors choose to stay on the sideline as the holidays approach. Furthermore, it probably takes more evidence of economic improvements for investors to regain their confidence and return. Hopefully a solution to the European sovereign debt crisis will be achieved in 2012 to help restore global investor sentiment.

For this reason, our portfolio will continue to hold large-cap companies with strong balance sheets, solid cash flows and fair valuations. Also, as we wait for further improvements in the macroeconomic conditions and structural changes in the banking sector, our focus continues to be on defensive companies in industries such as consumer staples and pharmaceuticals. That said, we are also closely monitoring the growth stocks and good recovery plays in order to timely position ourselves when the good time starts to roll.



Sector valuation

Industry group	Weight %	1M %	3M %	YTD %	2011 PE	2012 PE	2013 PE	2014 PE	2016 PE	P/B	Dvd Yield	ROE	Gross Margin	Op Margin	Net Margin	Net D/E
Vietnam Market	100.0%	-3.7%	-13.6%	-18.6%	7.9	7.5	6.0	5.3	4.2	2.0	4.8	24.3	33.7	21.5	17.7	6.09
Automobiles & Components	0.7%	0.1%	-32.2%	-66.2%	3.4	4.1	3.3	3.0	1.6	0.9	9.9	20.7	15.8	8.9	5.5	0.3
Banks	37.5%	0.2%	-10.9%	-16.2%	8.5	5.8	5.1	5.1	3.9	1.5	1.4	20.8	34.7	20.2	14.4	15.7
Capital Goods	2.7%	3.5%	-10.6%	-40.7%	4.8	6.0	5.0	4.7	3.9	1.1	8.0	18.8	40.8	18.8	33.0	0.2
Commercial Services & Supplies	0.2%	0.8%	-16.8%	-52.6%	2.8	2.8	2.4	2.0	1.7	0.5	7.3	17.1	28.9	11.7	13.4	-0.1
Consumer Durables & Apparel	1.3%	5.1%	-8.5%	-14.7%	9.2	7.8	7.2	5.2	3.5	1.7	4.3	19.0	8.5	4.6	3.1	0.7
Consumer Services	0.3%	-16.4%	-37.2%	-49.2%	2.4	2.1	2.0	1.8	1.6	0.6	-	26.0	94.8	63.9	67.2	-1
Diversified Financials	4.2%	-18.9%	-33.2%	-52.6%	6.2	12.7	6.9	6.0	4.5	0.8	7.3	8.5	51.4	47.0	36.7	-0.7
Energy	5.7%	-1.4%	-11.6%	-31.7%	5.9	5.4	4.3	4.0	3.3	1.2	6.1	23.1	17.1	11.7	8.4	0.8
Food & Staples Retailing	0.1%	2.4%	-0.5%	2.5%	4.0	4.1	4.1	4.1	3.9	0.8	-	18.1	16.7	8.2	5.3	1.1
Food, Beverage & Tobacco	18.0%	-6.5%	-1.2%	29.7%	11.1	10.9	8.5	6.9	4.5	4.6	4.7	36.8	32.2	20.0	17.2	-0.1
Household & Personal Products	0.2%	-6.9%	-13.5%	-38.5%	5.8	5.5	5.6	5.5	5.1	0.4	1.4	1.5	19.0	4.8	-0.8	0.9
Insurance	1.6%	2.1%	6.9%	-3.1%	6.5	6.6	6.2	6.8	-	0.6	3.0	8.9	40.8	4.3	12.5	-1.3
Materials	9.3%	-10.2%	-26.9%	-44.7%	4.5	3.5	3.5	3.0	2.5	1.2	11.5	31.5	31.0	25.0	21.8	-
Pharmaceuticals & Biotechnology	2.5%	-3.7%	-13.1%	-6.0%	8.3	7.0	6.6	5.3	3.6	2.2	5.3	30.4	44.7	18.4	18.6	-0.4
Real Estate	7.7%	-9.2%	-35.5%	-60.6%	5.7	11.5	5.5	4.7	3.5	1.4	8.6	15.3	40.7	33.7	28.1	1.2
Retailing	0.6%	1.0%	-11.1%	-31.1%	6.1	3.4	3.3	2.9	2.4	0.7	9.7	19.7	7.0	2.7	2.1	0.6
Software & Services	0.5%	21.8%	-8.8%	-50.7%	4.7	4.3	4.6	4.4	3.9	1.5	17.2	31.1	20.9	12.7	11.6	-0.1
Telecommunication Services	3.7%	1.2%	-4.1%	-22.3%	7.6	6.1	5.5	4.8	4.0	2.4	2.9	33.6	21.2	11.2	6.4	0.6
Transportation	2.0%	-5.6%	-26.7%	-54.8%	6.1	12.6	16.2	10.7	23.7	0.6	6.4	12.4	21.4	15.7	9.8	0.5
Utilities	1.3%	-11.2%	-16.1%	-34.4%	6.1	5.7	5.2	4.8	4.4	0.7	12.4	12.8	54.5	51.5	58.5	-0.1

* Vietnam Market comprises of both the Ho Chi Minh Stock Exchange (HoSE) and the Hanoi Stock Exchange (HNX).

*The Sector valuation table is generated by VAM in-house Company Analysis System - VCAS

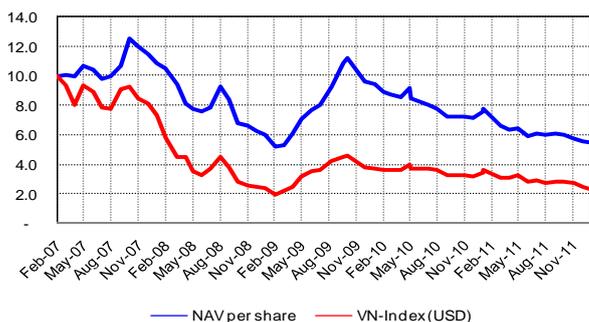
Vietnam Emerging Market Fund (VEMF)

NAV per share	US\$5.47
Dec-11	-1.4%
YTD	-28.2%
Since inception (Feb 07)	-45.3%
Reuters	65092798
Bloomberg	VAMVEMF KY Equity
ISIN	KYG 936131005
CUSIP	G93613100

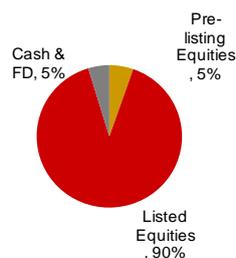
VEMF is a Cayman open-end fund with monthly liquidity for offshore investors. The Fund invests in private equities, privatization, OTC and listed stocks in Vietnam on an actively-managed basis.

As at end December, the Fund's NAV per share was 5.47. Despite a 1.4% MoM decrease, the Fund continued to lead the VN-Index (in US\$), recording outperformance of 6.34% MoM, 4.55% YTD, and 31.29% since inception.

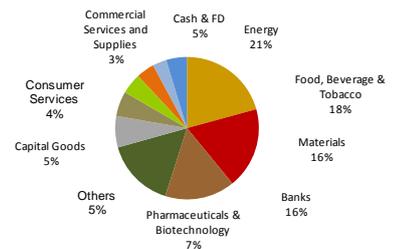
Performance vs. VN-Index (US\$)



Fund Breakdown



Sector Breakdown



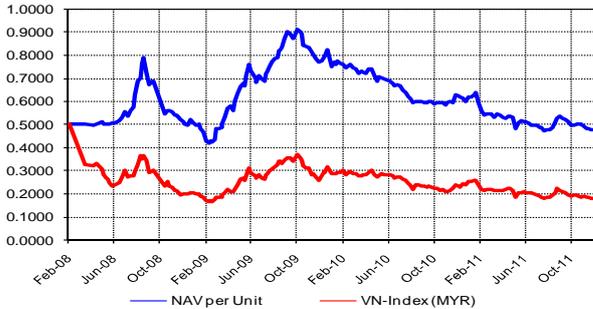
Hong Leong Vietnam Fund (HLGVF)

NAV per unit	RM 0.4732
	US\$ 0.1490
Dec-11	-1.84%
YTD	-23.59%
Since inception (Feb08)	-5.4%
Bloomberg	HLGVIET.MK

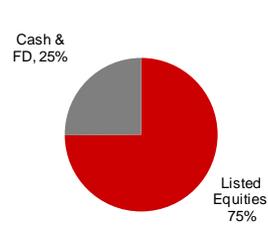
HLGVF is an actively-managed open-end unit trust for Malaysian high-net-worth investors. The Fund invests in OTC, pre-listing and listed stocks in Vietnam.

As at end December, the Fund's NAV per unit was RM0.4732. Despite a 1.84% MoM decrease, the Fund continued to lead the VN-Index (in MYR), recording outperformance of 5.8% MoM, 2.54% YTD and 61.02% since inception.

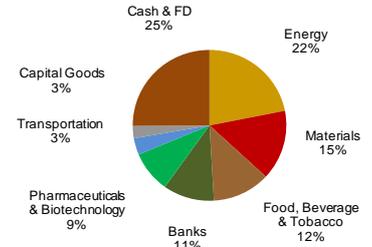
Performance vs. VN-Index (MYR)



Fund Breakdown



Sector Breakdown



HS-VAM Vietnam Index Linked Fund (VILF)

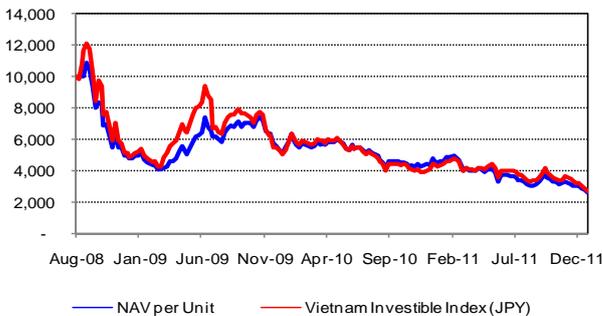
NAV per unit	JPY 2,627
	US\$ 33.71
Dec-11	-13.8%
YTD	-41.9%
Since inception (Jul08)	-73.7%
Bloomberg	VAMINLI KY Equity

VILF is a Cayman open-end unit trust for Japanese retail investors. The Fund invests in top 20 investible listed blue-chips in Vietnam on a passively-managed basis.

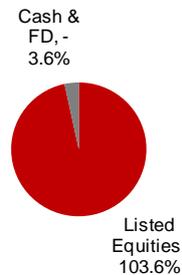
The Fund's NAV per unit decreased 13.8% MoM to close at JPY 2,627 on 28 December 2011.

As of 28 Dec '11

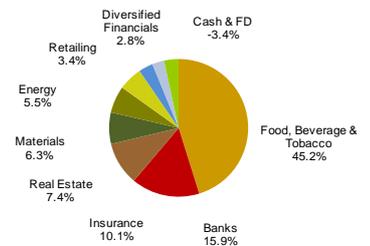
Performance vs. VII (JPY)



Fund Breakdown



Sector Breakdown



Disclaimer: This report has been prepared by Vietnam Asset Management Limited ("VAM") or an affiliate thereof and has been prepared on the basis of information obtained from sources VAM considered to be reliable, but VAM does not make any representation or warranty, express or implied, as to its accuracy, completeness, timeliness or correctness. VAM may use certain assumptions or models in the preparation of this report and different assumptions may provide substantially different results.

No representation is made that any investment or recommendation contained herein is suitable or appropriate for the recipient and does not constitute an advertisement, solicitation or offer to buy or sell securities, futures, options or other financial instruments in Vietnam or any other jurisdiction. This report shall not be a substitute for the exercise of the recipient's judgment in making an investment decision and VAM accepts no liability for investment losses.

VAM, its affiliates, related companies and its respective directors and employees, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities, referred to in this research.

VAM, its affiliates, related companies and its respective directors and employees accept no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein or further communication thereof, even if VAM or any other person has been advised of the possibility thereof.

Copyright 2011 Vietnam Asset Management Limited. No part of this report may be reproduced or distributed without the prior consent of Vietnam Asset Management Limited. All rights reserved. This report may only be distributed as permitted by applicable law.