

Market Update

Achieving inflation target for 2011 ambitious but next year promises to be better

Vietnam's inflation remains one of the highest of the Asia-Pacific economies. World Bank inflation estimates are 19% for the current year, and 10.5% in 2012. From October to November of this year, prices rose 0.39%, bringing the YTD inflation to 17.5%. As the volume of goods needed for year-end celebrations generally increase by 20 – 22% over previous months, inflationary pressure is also expected to increase. With the government's target of 18% inflation for the year, and historical December MoM inflation being 1.98% (2010) and 1.38% (2009), this target appears ambitious. The Deputy Head of Industry and Trade Department has stated however, that he is working with businesses to ensure enough goods are available during the holiday season so that prices rise only 0.5 to 0.7% MoM. Inflation has been fuelled by many factors, including rising global commodity prices and rising credit growth.

Taming inflation first, GDP growth second

Vietnam's National Assembly has set the economic growth target for 2012 at 6-6.5% as their focus on controlling inflation supersedes their desire for growth. The World Bank's forecast for 2012 is slightly lower than the National Assembly, predicting 6.1% growth for 2012. GDP growth for the first three quarters of 2011 was 5.76%, lower than the 6.54% recorded during the same period in 2010. For the full year of 2011, World Bank estimates Vietnam's GDP growth to be around 5.8%, and that growth in East Asia will decrease to 7.8% in 2012 due to the global growth slowdown and EU sovereign debt uncertainties.

Higher export prices contribute to trade deficit improvement

General Statics Office trade figures show a continual YoY decline in the trade deficit figures, with a YTD trade deficit of USD 8.9 billion. During the same period in 2010, the trade deficit was USD 1.7 billion higher than in 2011. Export growth is up 34.7% over the same period in 2010, while imports grew only 26.5%. Helping to improve trade figures was a 66% increase in

the price of agriculture products and a 43.6% increase in the crude oil prices, while prices of some imported raw materials i.e. fuel, cotton, rubber and steel, have dropped.

Dong remains unchanged

After 14 adjustments to the VND in October, the currency remains unchanged at 20,803. Commercial banks, permitted to allow a $\pm 1\%$ deviation to the set rate, have for the most part, set their rates at the ceiling of VND 21,011. With dollar denominated loans coming due towards the year end, there will be increased pressure on the currency. In August, the SBV announced that the reference interbank exchange rate would be adjusted by a maximum of 1% by the end of this year; with adjustments to date coming to 0.85%, there is still room for adjustments up to 0.15% in keeping below the margin.

Interbank loan defaults

Despite interbank lending rates approaching 30% per annum, interbank lending has gotten more difficult. In the past month, 4 Ho Chi Minh City commercial banks, having borrowed VND 1.475 trillion (approximately USD 83 million) in the interbank market, failed to repay on time. Concerned with the solvency of these banks, lenders are now asking for mortgaged assets as collateral before lending. In order to borrow in the interbank market, commercial banks have resorted to using gold as borrowing collateral, thus causing gold interest rates to rise to 3–3.5%, (much higher than the 1% offered in May) in order to mobilize more gold deposits.

Markets

The Vn-Index ended the month of November at 380.69, down 40.11 points from its end-October close, returning a -9.53% for the month. Investors concerned over growing NPLs's, high interest rates, gold market sanctions, and liquidity issues in the banking system, in addition to the absence of any noteworthy encouraging macro news, have become hesitant to commit capital. The northern bourse fared worse than the southern bourse, shedding 9.74 points or 13.9% for the month, setting new records lows.

Our view

With the macro economy showing significant improvements we now have reasons to hope for a better year in 2012, a year of recovery for the economy and businesses. Clearly, policy risks are still very much investors' concern, but the active implementation of fiscal policies and restructuring of SOEs thus far has proven the Government's commitment towards macroeconomic stability. The Government's goal of "Stability over Growth" can also be seen in the ambitious target of single digit inflation (9%) and moderate economic growth (6%) for 2012. To achieve this goal, it is expected that the Government will have to be very disciplined as it is not easy to sacrifice growth. For instance, while many Asian countries are about to continue to cut policy rates and deliver stimulus packages to boost growth in 2012, Vietnam should not expect to see easing monetary policy immediately as premature loosening of policy rate might cause the problem to recur. Instead, tight monetary policy and restructuring of SOEs and the banking sector should be the focus in order to maintain the health and sustainability of economy in the coming years. Making the economic and business environment more transparent is also very crucial in attracting FDI and creating a solid foundation for medium and long-term growth.

On the corporates front, as the rest of 2011 remains challenging for most businesses, the earning prospect for listed companies this year will be best depicted by slower growth and a squeeze in profit margin. Accordingly, it is easy to foresee that businesses are making conservative budget for 2012. Of course, opportunities, however, are still available to leading firms with strong financial muscle, dominant market position and wise management who know how to exploit the opportunities in a time of volatility.

For the time being, we have identified many good buying opportunities in the market with low valuations and sound fundamentals. Nevertheless, we remain cautious until the financial sector's situation improves and will choose to add stocks only very selectively. Our portfolio, therefore, will continue to concentrate on leading companies in defensive sectors such as pharmaceuticals, fertilizers, energy and consumer staples with strong balance sheet, strong cash flow and steady growth.



Sector valuation

Industry group	Weight %	1M %	3M %	YTD %	2010 PE	2011 PE	2012 PE	2013 PE	2015 PE	P/B	Dvd Yield	ROE	Gross Margin	Op Margin	Net Margin	Net D/E
Vietnam Market	100.0%	-9.0%	-10.7%	-15.2%	8.3	8.1	6.5	5.5	4.4	2.2	5.0	24.7	32.5	22.5	18.7	3.32
Automobiles & Components	0.8%	-27.8%	-38.6%	-66.2%	2.9	3.7	3.4	3.1	1.6	0.8	10.0	22.5	16.8	9.7	6.1	0.3
Banks	24.3%	-7.3%	-8.4%	-16.4%	8.6	5.9	5.2	5.0	3.8	1.5	2.4	22.0	35.2	24.1	17.5	13.3
Capital Goods	3.8%	-10.7%	-15.8%	-42.7%	5.2	6.1	5.5	5.3	4.5	1.0	7.5	16.2	31.9	14.4	24.4	0.2
Commercial Services & Supplies	0.2%	-16.9%	-21.4%	-53.0%	2.9	2.9	2.4	2.1	1.8	0.5	7.3	17.3	29.2	11.9	13.4	-0.1
Consumer Durables & Apparel	1.4%	-8.3%	1.2%	-18.8%	8.5	7.2	6.6	4.9	3.3	1.5	4.7	18.6	8.7	4.7	3.1	0.7
Consumer Services	0.3%	-22.8%	-16.1%	-39.2%	7.7	7.3	6.9	6.5	5.8	0.4	-	9.0	68.5	30.6	30.2	-
Diversified Financials	5.1%	-13.5%	-20.7%	-41.6%	7.5	15.2	8.3	7.3	5.5	1.0	6.2	8.4	51.2	46.8	36.5	-0.7
Energy	6.0%	-12.0%	-12.5%	-30.8%	6.2	5.9	4.8	4.5	3.7	1.3	5.9	22.2	17.0	11.7	8.4	0.8
Food & Staples Retailing	0.2%	-5.5%	10.3%	0.1%	29.2	40.6	81.8	4.1	3.9	0.6	-	7.9	12.1	1.1	2.4	0.9
Food, Beverage & Tobacco	23.2%	3.6%	5.1%	38.7%	11.9	11.8	9.1	7.3	4.8	5.0	3.4	37.0	32.4	20.4	17.5	-0.1
Household & Personal Products	0.2%	-11.5%	-9.7%	-33.9%	6.7	4.8	4.9	4.8	4.5	0.4	1.4	1.0	18.9	4.6	-1.1	0.9
Insurance	1.3%	0.4%	-8.0%	-5.2%	6.1	6.2	5.9	6.8	-	0.6	3.1	8.9	40.5	4.1	12.4	-1.3
Materials	11.4%	-18.4%	-20.3%	-38.4%	5.1	4.0	3.9	3.3	2.8	1.4	9.7	30.3	30.2	24.3	20.9	-
Pharmaceuticals & Biotechnology	2.5%	-9.6%	-2.6%	-2.4%	8.9	7.5	7.0	5.6	3.8	2.4	5.0	30.6	44.8	18.1	18.2	-0.4
Real Estate	10.6%	-25.2%	-31.9%	-56.6%	5.3	10.3	6.4	5.4	4.6	1.3	6.3	14.4	39.0	32.4	26.5	0.9
Retailing	0.9%	-12.0%	-11.9%	-31.7%	37.3	5.3	4.3	3.8	3.2	0.6	7.3	16.5	10.9	7.0	4.6	0.7
Software & Services	0.5%	-23.1%	-23.4%	-59.5%	4.3	3.7	4.0	3.9	3.4	1.2	19.7	31.3	21.0	12.7	11.7	-0.1
Telecommunication Services	3.7%	-2.3%	-12.3%	-23.2%	7.5	6.0	5.4	4.7	3.9	2.4	3.0	33.5	21.2	11.2	6.4	0.6
Transportation	2.3%	-16.6%	-17.9%	-52.2%	6.2	13.1	17.1	11.2	24.2	0.5	6.2	10.1	20.0	14.0	8.6	0.5
Utilities	1.3%	-4.7%	-2.7%	-26.2%	6.8	6.2	5.7	5.2	4.8	0.8	11.1	12.7	53.9	50.9	57.3	-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

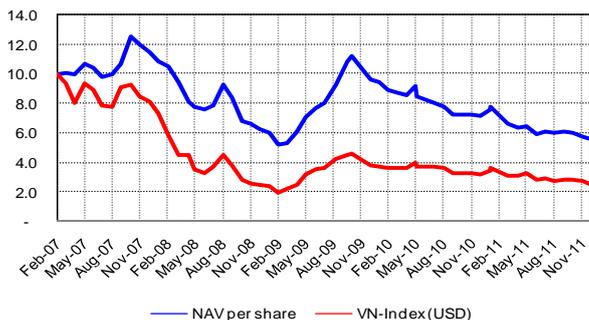
Vietnam Emerging Market Fund (VEMF)

NAV per share	US\$5.55
Nov-11	-4.1%
YTD	-27.2%
Since inception (Feb 07)	-44.5%
Reuters	65092798
Bloomberg	VAMVEMF KY Equity
ISIN	KYG 936131005
CUSIP	G93613100

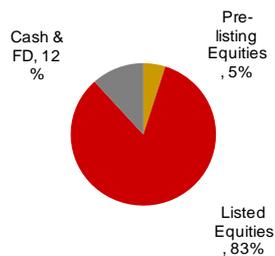
VEMF is a Cayman open-end fund with monthly liquidity for offshore investors. The Fund invests in private equities, privatization, OTC and listed stocks in Vietnam on an actively-managed basis.

As at end November, the Fund's NAV per share was US\$5.55. Despite a 4.1% MoM decrease, the Fund continued to lead the VN-Index (in US\$), recording outperformance of 5.38% MoM, and 30.12% since inception.

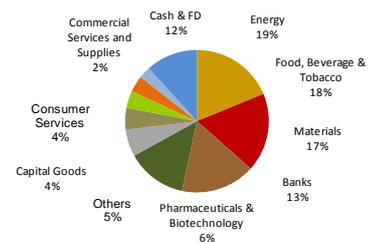
Performance vs. VN-Index (US\$)



Fund Breakdown



Sector Breakdown

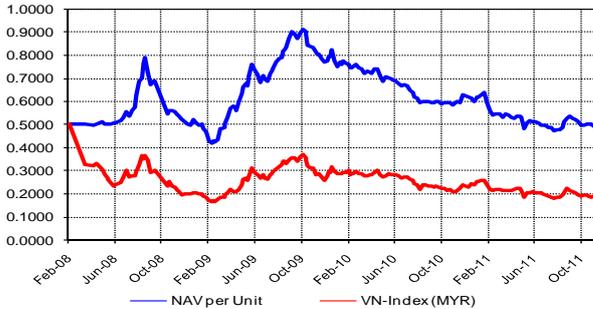


Hong Leong Vietnam Fund (HLGVF)

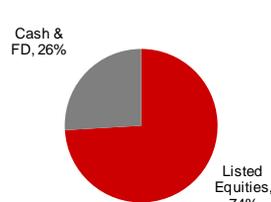
NAV per unit	RM 0.4821
	US\$ 0.1522
Nov-11	-3.37%
YTD	-22.15%
Since inception (Feb08)	-3.6%
Bloomberg	HLGVIET.MK

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 November, the Fund's NAV per unit was RM0.4821. Despite a 3.37% MoM decrease, the Fund continued to lead the VN-Index (in MYR), recording outperformance of 3% MoM, and 60.01% since inception.

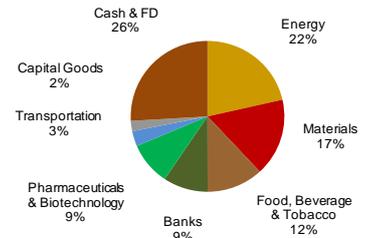
Performance vs. VN-Index (MYR)



Fund Breakdown



Sector Breakdown



HS-VAM Vietnam Index Linked Fund (VILF)

NAV per unit	JPY 3,047
	US\$ 39.25
Nov-11	-5.0%
YTD	-32.6%
Since inception (Jul08)	-69.5%
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.

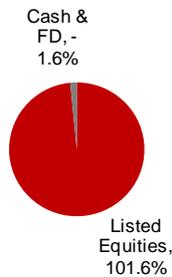
The Fund's NAV per unit decreased 5% MoM to close at JPY 3,047 on 30 November 2011.

As of 30 Nov '11

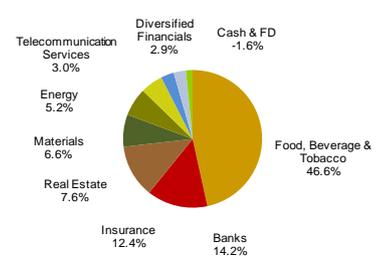
Performance vs. VII (JPY)



Fund Breakdown



Sector Breakdown



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