

Market Update

Inflation continues its downward trend

Continuing with a trend that began in August, the Consumer Price Index (CPI) slowed on a MoM basis to 0.36% in October. This is down from 0.93% and 0.82%, seen in August and September, respectively. Of the 11 items contained in the basket that make up the CPI, Education had the largest increase (3.2% MoM); a rather expected outcome considering September is back-to-school season. Earlier this month, the government announced that the target inflation rate for 2012 is expected to come in under 10%, a rather ambitious target given the expected 18% for the year 2011.

Trade deficit improved

October's trade deficit came in at USD 800m, a substantial improvement over September's USD \$1.5bn deficit especially considering that part of September's trade deficit included USD 700m of gold imports. The improvement in October's deficit is in part due to increased oil and coal exports, in addition to decreased automobile and equipment imports. Year to date, the trade deficit stands at USD 8.39bn, which is 15.9% lower than the same period in 2010. On a related note, overseas remittances for the year are expected to reach USD 8.5bn, 6.3% more than 2010's number.

VND continues to show weakness

Last month at report time, the VND/USD sell exchange rate at most commercial banks was 20,834 per USD. This month, that rate has crept up to 21,011, indicating a 0.85% depreciation of the currency. In the effort to control the black market exchange rate and dollarization, the SBV had raised the reference rate in several increments of VND 15 and VND 20 this month, as well as issuing Decree 95/2011 which calls for fines up to VND 500m (previously VND 70m) for unauthorized foreign exchange trading. This move by the SBV had an immediate impact on the black market rate, causing it to decrease and thus closed out the month at 21,400 per USD. Also included in the decree was a Gold market management regulation. With the interbank VND rate closing out the month at 20,803 per USD, the currency remains under pressure as the value of gold and precious gems imports for the first 9 months of this year reached USD 1.93 billion and more gold imports are expected in attempts to stabilize the country's gold markets.

Industrial Production inches up

The GSO reported that while inventory levels increased 21% YoY, and retail sales saw no growth, Industrial Production rose by 5.2% YoY in October. While Industrial Production gained, the modest increase over September could be reflective of the still high inflation and interest rate environment, along with growing inventory stockpiles and weakness in the currency.

Bank consolidations likely

Circular 34, recently issued by the SBV gives orders and procedures under which banks, foreign bank branches, and representative offices could face the revocation of their license and the liquidation of their credit assets. This move is very likely to be laying the groundwork for consolidations to begin amongst the commercial banks, as new banking licenses are not being issued.

Real Estate Developers announce deep discounts

In efforts to create cash flows and avoid fines on overdue bank loans; several developers have announced sharp discounts on unsold apartments in Hanoi and Ho Chi Minh. With fierce competition and ample supply in the mid to high-end developments, discounts have been as steep as 30%. Unlikely to be contained to just a few projects and the two cities, these discounts may force other developers to reconsider their pricing strategies. It is expected that these discounts will resonate through the whole real estate sector putting downward pressure on selling prices and also negatively affect equity prices as developers and the holders of their debt clean up their balance sheets of the ensuing losses, and as capital is attracted towards cheap real estate.

The markets

Closing October at 420.8, the market showed a negative return of 1.61% for the month. Contributing to the negative return was some profit taking at the end of the month after an impressive run in the third week of the month. Not isolated from global macroeconomic concerns, the market saw gains when the Greece rescue plan looked imminent, however the market has fallen hard and in-line with global markets as the rescue package appears uncertain. In general, market sentiment has not improved much as swings in gold and weakness in the dong cause them to be cautious, despite falling inter-bank rates (the 12 month inter-bank rates saw the greatest decrease of 5.5% to 13.51%) and continually improved inflation figures.

Our view

Moving into the last months of 2011, the economic picture of Vietnam is mixed. While both inflation and trade deficit got better, banks and real estate sectors seem to have gotten into trouble, with a number of recent credit defaults and the central bank laying ground rules for banks' consolidations. In addition, rising level of "black credit" (a.k.a Ponzi scheme borrowing), short of liquidity in banking system and falling real estate prices have become the key concerns for investors regarding the health of Vietnamese economy. Undoubtedly the economy and stock market are also affected by global economic woes such as the Greece debt debacle.

Third quarter corporate earnings were generally poor, as a result of the high interest expenses and rising operating costs burden. Amidst weaker real consumer spending and large-scale budget tightening by the public, most listed firms in sectors such as steel, shipping, cement and real estate released disappointing results and even losses compared to the same period last year. However, there have also been a few spotlights amid the dark clouds. Despite macro stresses, sales growth of companies in consumer staples and health care industry still remains robust with earnings staying at sustainable level thanks to strong demand.

With ongoing economic challenges internally and externally, economic recovery path in 4Q2011 and 2012 onwards is expected to see a painfully slow as it will take time for the government, especially SBV to address the current issues. The restructuring process has been started with a number of new laws being enacted to foster an M&A process and facilitating bankruptcies in order to strengthen banking system and make it more transparent.

Our view is that there will be no immediate improvement in the business environment just yet and the economy will continue to face many challenges that need to be addressed such as policy risks, rising NPLs, currency weakness and inflation till the end of this year. Against this economic background, we uphold our interest in defensive sectors such as consumer staples, agricultural and healthcare and pharmaceutical, focusing on leading players with low debt, large market share. Banking system, which has become the focal point of news headlines in regard to its increasing non-performing loan and liquidity shortage will be closely monitored in such a sensitive period.



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%	-2.3%	1.3%	-10.2%	8.6	8.4	6.9	6.0	5.7	2.2	4.8	25.2	32.0	22.6	19.1	3.57
Automobiles & Components	0.9%	-9.2%	-8.5%	-54.7%	4.1	5.3	4.7	4.3	2.3	1.1	7.4	22.6	17.0	9.7	6.1	0.3
Banks	26.6%	-4.8%	-1.7%	-10.5%	9.4	6.7	5.9	6.2	7.9	1.5	2.7	20.3	32.1	22.9	16.7	12.8
Capital Goods	2.8%	-2.6%	5.4%	-35.4%	4.8	7.1	5.4	5.1	4.4	1.1	8.4	17.8	39.0	17.2	30.6	0.2
Commercial Services & Supplies	0.2%	-1.6%	-2.5%	-44.0%	3.3	3.3	2.8	2.3	2.0	0.6	6.6	17.4	29.4	12.0	13.2	-0.1
Consumer Durables & Apparel	1.2%	-7.0%	17.5%	-13.3%	9.2	7.9	7.2	5.4	3.6	1.6	4.5	18.4	8.8	4.8	3.1	0.7
Consumer Services	0.2%	-3.4%	15.0%	-21.9%	2.3	2.1	2.0	1.8	1.6	0.6	-	26.0	94.8	63.9	67.2	-1
Diversified Financials	4.7%	-2.0%	9.3%	-30.4%	8.3	17.0	9.2	8.1	6.1	1.1	5.5	8.5	51.3	46.8	36.6	-0.7
Energy	6.0%	-0.3%	-2.1%	-23.0%	6.7	6.5	5.3	4.9	4.0	1.4	5.4	22.1	16.8	11.6	8.3	0.8
Food & Staples Retailing	0.2%	2.4%	20.1%	5.5%	25.2	34.8	69.4	4.0	3.8	0.7	-	10.5	13.3	2.9	3.1	1
Food, Beverage & Tobacco	21.6%	1.4%	12.5%	33.2%	11.4	11.3	8.8	7.1	4.6	4.7	3.3	37.0	32.6	20.5	17.6	-0.1
Household & Personal Products	0.2%	1.7%	8.2%	-27.6%	7.8	4.5	4.6	4.5	4.2	0.5	1.4	0.7	18.9	4.5	-1.3	0.9
Insurance	1.3%	4.0%	1.5%	-5.8%	6.1	6.2	5.9	7.1	-	0.6	3.2	8.9	40.5	4.1	12.4	-1.3
Materials	13.8%	-1.0%	-5.5%	-25.2%	6.2	4.8	4.7	3.9	3.3	1.6	8.2	30.2	29.5	23.6	20.3	0.1
Pharmaceuticals & Biotechnology	2.2%	0.3%	6.6%	8.5%	9.6	8.1	7.7	6.1	4.2	2.6	4.7	30.2	44.6	18.0	17.9	-0.3
Real Estate	9.6%	-5.2%	-5.0%	-42.1%	6.6	8.8	6.3	4.6	3.9	1.6	4.8	18.1	36.8	30.8	29.2	0.7
Retailing	0.7%	-1.5%	-0.7%	-23.6%	6.4	3.6	3.6	3.0	2.6	0.7	7.9	20.2	6.8	2.6	2.0	0.5
Software & Services	0.5%	-5.1%	-3.1%	-48.7%	5.2	4.5	4.8	4.7	4.1	1.4	16.2	31.2	21.0	12.7	11.6	-0.1
Telecommunication Services	3.7%	-4.0%	-13.1%	-22.2%	7.7	6.2	5.6	4.8	4.0	2.4	2.9	33.5	21.2	11.2	6.4	0.6
Transportation	2.3%	-8.9%	-8.3%	-43.9%	7.8	16.9	22.0	14.4	31.9	0.6	5.6	10.1	19.9	14.0	8.6	0.6
Utilities	1.2%	-1.8%	8.1%	-23.3%	7.2	6.6	6.0	5.6	5.1	0.9	10.3	12.7	53.9	50.9	57.5	-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

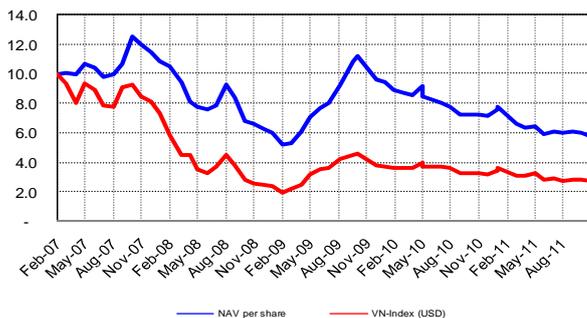
Vietnam Emerging Market Fund (VEMF)

NAV per share	US\$5.79
Oct-11	-4.1%
YTD	-24.0%
Since inception (Feb 07)	-42.1%
Reuters	65092798
Bloomberg	VAMVEMF KY Equity
ISIN	KYG 936131005
CUSIP	G93613100

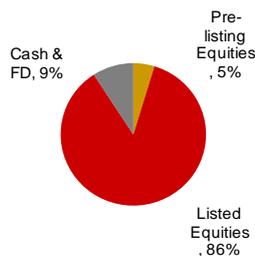
VEMF is a Cayman open-end fund with monthly liquidity for offshore investors. The Fund invests in private equities, privatization, OTC and listed stocks in Vietnam on an actively-managed basis.

As at end October, the Fund's NAV per share was 5.79. Despite a 4.1% MoM decrease, the Fund continued to lead the VN-Index (in US\$), recording outperformance of 29.85% since inception.

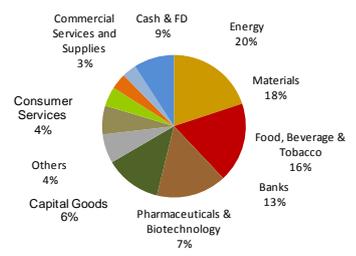
Performance vs. VN-Index (US\$)



Fund Breakdown



Sector Breakdown



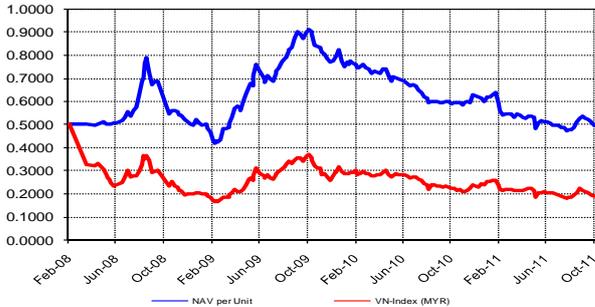
Hong Leong Vietnam Fund (HLGVF)

NAV per unit	RM 0.4989
	US\$ 0.1593
Oct-11	-5.55%
YTD	-19.44%
Since inception (Feb08)	-0.2%
Bloomberg	HLGVIET.MK

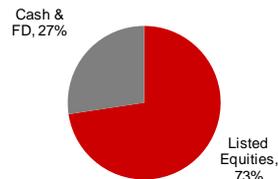
HLGVF is an actively-managed open-end unit trust for Malaysian high-net-worth investors. The Fund invests in OTC, pre-listing and listed stocks in Vietnam.

As at end October, the Fund's NAV per unit was RM0.4989. Despite a 5.55% MoM decrease, the Fund continued to lead the VN-Index (in MYR), recording outperformance of 0.97% MoM, and 60.89% since inception.

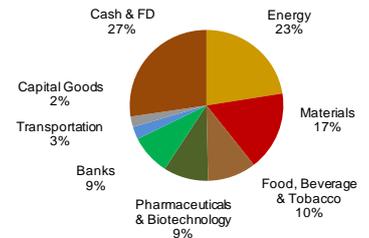
Performance vs. VN-Index (MYR)



Fund Breakdown



Sector Breakdown



HS-VAM Vietnam Index Linked Fund (VILF)

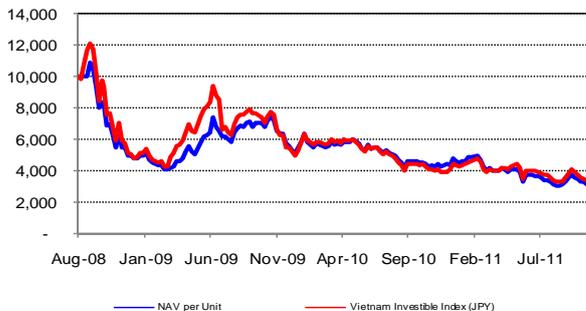
NAV per unit	JPY 3,208
	US\$ 42.34
Oct-11	-7.1%
YTD	-29.0%
Since inception (Jul08)	-67.9%
Bloomberg	VAMINLI KY Equity

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.

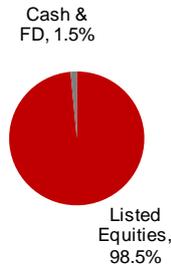
The Fund's NAV per unit decreased 7.1% MoM to close at JPY 3,208 on 25 October 2011.

As of 25 Oct '11

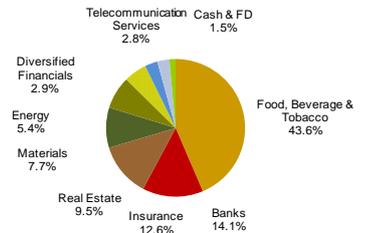
Performance vs. VII (JPY)



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.