

Market Update

Inflation, declining but not yet subdued

CPI figures released for September show inflation rose 0.82% for the month. This is down from August's figure of 0.93% and is the lowest monthly increase since August 2010. With the current YTD inflation figure totaling 16.63%, the ADB estimates inflation for the year will be 18.7% (official target figures are 15-17% for the year). The SBV recently stated it would continue to restrain lending growth and cut money supply expansion as it applies fiscal and monetary policy in controlling inflation. Vietnam's inflation rate is currently the highest amongst its neighboring countries.

Interest rates trending downward

Dong fixed deposit interest rates have been capped at 14% per annum for terms ranging from one week to sixty months, and 6% for terms less than 1 month. The cap has heightened competition amongst banks for deposits, with customers transferring deposit to larger banks, or to banks that have not applied the cap and risk penalty from the SBV. Considering CPI figures and dong weakening, depositors are left with negative real rates of return; as a result, professional investors are predicted to move deposits to assets considered safer. Bank lending rates, as per agreement with the SBV, have begun to decline 1.5-2%, with several banks offering rates between 17 - 19% per annum. Some banks however, are having difficulties applying the same rate to all loans as their costs of funding were higher than the recently agreed lending range. The decreased borrowing costs are expected to provide reprieve for business and the economy. Meanwhile, USD deposit rates remain capped at 2% p.a. for individual depositors to dissuade them from converting dong to dollars.

Gold imports pressuring the dong

Despite world gold prices declining over \$200/oz in the past 30 days, increased holding and mobilizing costs that accompany gold investments, and the low return on gold deposits (some local banks paying approximately 1.2% for a 3 month gold certificate), the gold market in Vietnam continues to be an appealing alternative to the equities market. So much of an alternative, that for a period of time the domestic premium ex-

ceeded 10% per tael over world gold prices. The premium has since reduced but gold continues to sell above world gold price, providing arbitrage opportunities for gold smugglers. To dampen the frenzy in gold, the SBV has recently approved requests for further gold imports which will help combat illegal gold imports but will also apply further downward pressure on the dong, speeding depletion of the FX reserves. For this reason, a new draft has been put forward to the SBV which would allow for gold trading on account without a physical position. Since the gold trading floor closed in March 2010, much FX reserves have been spent protecting the currency from devaluation.

Trade deficit increasing

Balance of trade figures for August were revised to a deficit of \$396m, of which, \$495m for imports of precious metals. For the first 9 months of 2011, imports totaled \$76.87 billion, while exports totaled \$70.03 billion, putting the YTD trade deficit at \$6.84 billion, including a deficit of \$1 billion for the month of September. The trade deficit for the same period in 2010 was \$8.45 billion, 19% higher than the same period in 2011, indicating improvements have been made in this area. Although Vietnam's imports are largely for machinery related FDI, the continued trade deficit applies pressure on the dong as importers seek dollars to pay for their goods.

GDP growth projection downgraded

For the first 9 months, GDP grew at 5.76% YoY, approximately 11.65% lower than last year's 6.52% growth for the same time period. This is the lowest growth recorded for the same period in the last 5 years, exempting the recession hit 2009. Earlier this month, the ADB cut Vietnam's projected full year growth from 6.1% to 5.8%.

Markets experiencing volatility

Charted closing prices for the VN Index for the month would make an arch like visual. Closing in August at 424.7, climbing to 470.67 on September 15 and then closing out the month at 427.6, the market made strides after August's macro data. However, the US decision to refinance short term debt with long term debt, along with the European debt crisis, have created havoc in the emerging market equities market. Investors, taking profits on

gains made in the recent rally, felt the uptrend was not sustainable, thus triggering selling in the second half of the month pushing the market just above where it began for the month.

Our view

Apparently, the domestic stock market has been quite volatile, affected by the fall of global stock market. As the European sovereign debt crisis has remained unresolved and US's quantitative easing package 2.5 raised a number of concerns over its feasibility, investing in Vietnamese equities is considered risky at the moment. On the domestic side, a widening trade deficit in September would put further pressure on VND and threaten to drain foreign exchange reserve, partly from a large gap between international gold price and local one. That might be a signal for foreign investors to withdraw capital to another safe haven to prevent a currency risk. Since 3Q earnings outlook of most listed firms is unlikely to show any improvements, the market needs new catalyst in order to move forward. We think there might be further correction and even capital outflow in the short term due to these uncertainties.

For a medium to long-term trend, we still maintain our view that the markets will gradually pick up since macro indicators are somehow showing signs of stability supported by government's great efforts in bringing down inflation and other positive data and news. As long as macroeconomic conditions continue to show improvements with constructive changes in fiscal and monetary policies and recovery in investors' confidence, foreign investors would be willing to channel their money back into the market to reap rewards from the economy's long-term growth prospect.

Given the current situation, we think big companies with good fundamentals such as good corporate governance, large market share, stable operation, and low debt would be able to survive and thrive in the coming time. Therefore, we uphold our interests in leading stocks of dairy, fertilizers, energy, pharmaceutical and telecommunication sectors. Additionally, since SBV consistently aims to fortify banking system and lower interest rates, we also keep an eye on big banking plays, which might benefit from SBV's policies by expanding their lending activities.



Sector valuation

Industry group	Weight %	1M %	3M %	YTD %	2010 PE	2011 PE	2012 PE	2013 PE	2016 PE	P/B	Dvd Yield	ROE	Gross Margin	Op Margin	Net Margin	Net D/E
Vietnam Market	100.0%	4.6%	5.1%	-7.0%	9.0	9.6	7.8	6.7	5.5	2.3	4.3	23.9	34.4	22.7	18.6	4.81
Automobiles & Components	0.8%	-2.6%	-6.1%	-47.9%	4.4	5.3	4.7	4.5	2.6	1.1	6.4	24.1	17.3	11.5	6.6	0.3
Banks	35.5%	5.2%	8.0%	-5.1%	9.6	8.3	6.9	6.5	5.1	1.8	3.3	20.1	37.3	23.3	16.8	13.2
Capital Goods	2.6%	5.5%	-1.9%	-31.7%	5.2	7.4	5.7	5.4	4.6	1.2	7.7	18.1	34.9	16.2	26.1	0.2
Commercial Services & Supplies	0.2%	-3.0%	-11.1%	-42.8%	3.7	3.6	3.0	2.4	1.9	0.6	7.6	16.7	31.4	12.1	10.8	0.1
Consumer Durables & Apparel	1.0%	16.7%	25.5%	-9.0%	9.3	8.0	7.8	5.3	4.5	1.5	4.3	17.9	9.5	5.0	3.3	0.7
Consumer Services	0.1%	11.4%	12.9%	-20.4%	2.3	2.1	2.0	1.8	1.6	0.6	-	26.0	94.8	63.9	67.2	-1
Diversified Financials	4.3%	6.1%	9.4%	-26.1%	9.3	18.9	10.3	9.0	6.8	1.2	5.0	8.6	51.6	47.0	36.7	-0.7
Energy	5.4%	5.1%	-4.9%	-20.3%	7.0	6.6	5.5	5.0	4.1	1.5	5.2	22.1	17.0	11.7	8.5	0.8
Food & Staples Retailing	0.2%	22.0%	19.5%	5.3%	24.2	32.7	63.2	7.3	7.0	1.0	-	9.7	13.0	2.4	2.9	1
Food, Beverage & Tobacco	18.8%	6.0%	15.7%	33.9%	11.5	11.5	9.0	7.3	4.7	4.9	3.2	37.3	33.0	20.8	17.9	-0.2
Household & Personal Products	0.2%	5.3%	-2.0%	-27.2%	7.5	4.1	4.1	4.1	3.8	0.5	1.7	1.0	18.9	4.7	-1.1	0.9
Insurance	1.5%	-7.6%	-7.3%	-7.1%	6.2	6.4	6.1	7.3	-	0.6	3.2	8.9	40.7	4.2	12.5	-1.3
Materials	9.6%	1.7%	-5.4%	-24.0%	6.5	5.3	5.1	4.5	3.8	1.7	7.2	29.5	31.3	24.0	20.8	-0.1
Pharmaceuticals & Biotechnology	2.1%	5.8%	13.6%	5.5%	8.9	7.9	7.8	6.2	4.2	2.3	5.0	28.9	44.4	17.2	17.3	-0.3
Real Estate	9.8%	4.5%	-9.6%	-36.6%	7.6	14.1	9.6	7.9	6.6	1.8	3.8	15.3	37.9	31.5	27.1	0.8
Retailing	0.6%	4.6%	-3.3%	-21.1%	6.5	3.6	3.7	3.1	2.7	0.7	8.0	20.4	6.8	2.6	2.1	0.5
Software & Services	0.5%	9.4%	2.8%	-43.3%	5.8	4.8	5.3	5.2	4.5	1.6	14.8	30.8	20.8	12.5	11.4	-0.1
Telecommunication Services	3.7%	-5.7%	5.9%	-18.9%	8.1	6.6	5.9	5.0	4.2	2.6	2.9	33.7	21.3	11.2	6.4	0.6
Transportation	1.9%	10.9%	-5.5%	-38.4%	8.7	18.8	24.5	16.1	36.3	0.6	6.6	10.3	19.5	13.9	8.4	0.5
Utilities	1.1%	8.5%	11.7%	-21.8%	7.3	6.8	6.2	5.8	5.2	0.9	10.0	12.7	53.6	50.5	56.7	-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

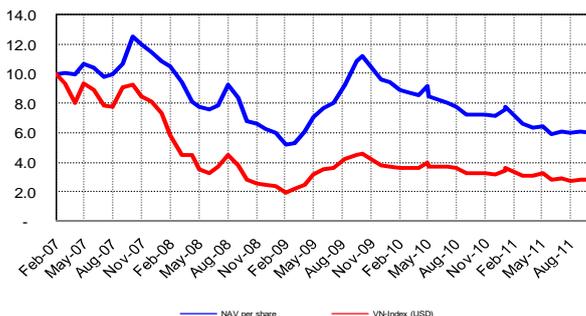
Vietnam Emerging Market Fund (VEMF)

NAV per share	US\$6.04
Sep-11	-0.8%
YTD	-20.7%
Since inception (Feb 07)	-39.6%
Reuters	65092798
Bloomberg	VAMVEMF KY Equity
ISIN	KYG 936131005
CUSIP	G93613100

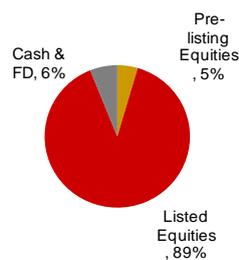
VEMF is a Cayman open-end fund with monthly liquidity for offshore investors. The Fund invests in private equities, privatization, OTC and listed stocks in Vietnam on an actively-managed basis.

As at end September, the Fund's NAV per share was 6.04. Despite a 0.8% MoM decrease, the Fund continued to lead the VN-Index (in US\$), recording outperformance of 31.65% since inception.

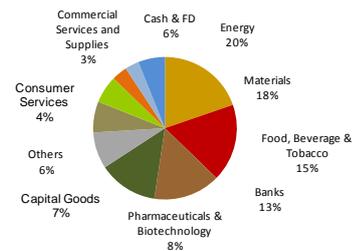
Performance vs. VN-Index (US\$)



Fund Breakdown



Sector Breakdown

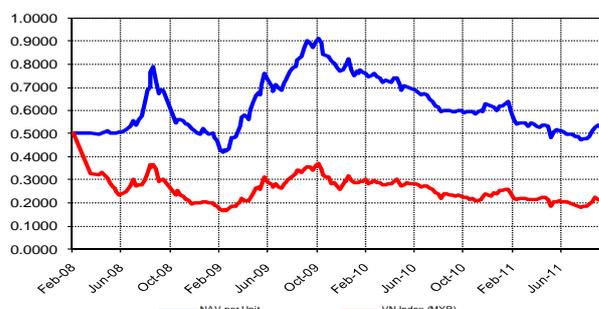


Hong Leong Vietnam Fund (HLGVF)

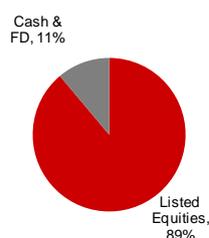
NAV per unit	RM 0.5282
	US\$ 0.1678
Sep-11	8.07%
YTD	-14.70%
Since inception (Feb08)	5.6%
Bloomberg	HLGVIET:MK

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 September, the Fund's NAV per unit was RM0.5282. With a 8.07% MoM increase, the Fund was up 5.6% since inception, and continued to lead the VN-Index (in MYR), recording outperformance of 0.31% MoM, and 64.05% since inception.

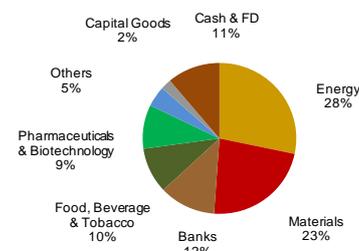
Performance vs. VN-Index (MYR)



Fund Breakdown



Sector Breakdown



HS-VAM Vietnam Index Linked Fund (VILF)

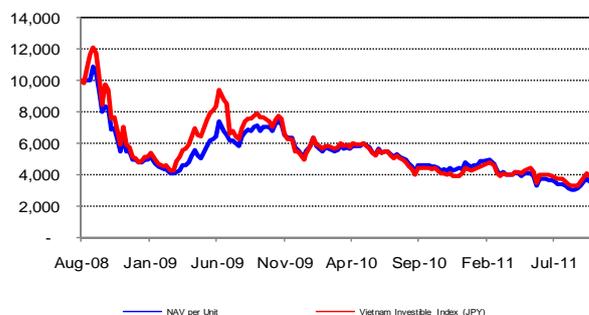
NAV per unit	JPY 3,454
	US\$ 45.19
Sep-11	4.3%
YTD	-23.6%
Since inception (Jul08)	-65.5%
Bloomberg	VAMINLI KY Equity

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.

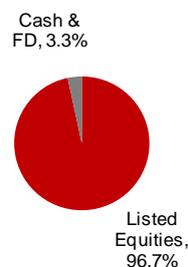
The Fund's NAV per unit increased 4.3% MoM to close at JPY 3,454 on 28 September 2011.

As of 28 Sep '11

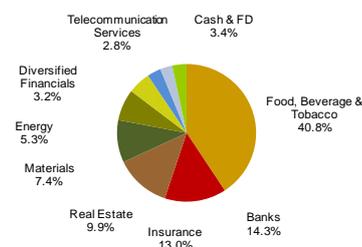
Performance vs. VII (JPY)



Fund Breakdown



Sector Breakdown



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