

Vietnam Equity Holding (VEH) Monthly Report

February 2012

Macroeconomic Update

February was a generally positive month with the currency stabilizing, inflation decreasing, and anticipation of lower interest rates. Five-year government bond yields decreased 82 basis points to 11.58%. Annualized inflation fell from 17.3% to 16.4% and is expected to continue to decline. Monthly inflation ticked up 1.4% versus 1.0% in January, accelerating for the fourth consecutive month. The key factors for continued inflation decline include the government's ability to manage the growth/inflation nexus. If lending rates fall too far and too fast, the inflation target of 10% will not be reached. However, the pressure on the government to reduce rates further and faster is growing with the continuing general lackluster economy and slow movement on restructuring of SOEs, the banking sector in particular. These two factors are weighing heavily on the real economy and pose a serious conundrum for the government to either grow the economy through a serious restructuring effort, or to kick that can further down the road. The main pressures for inflation in the economy will continue to be the gap in domestic energy prices from world prices, which the government has committed to reducing this year and beyond.

The government has been concentrating on increasing liquidity at banks for the past several months and signs of success are beginning to appear in falling government bond yields as large commercial banks have sufficient reserves to restart purchases of the bonds. The State Bank of Vietnam (SBV) has imposed loan growth limits for the year of 2012. Banks in the top tier are allowed to grow total loans by 17%, the second tier by 15%, the third tier by 8%, and the weakest banks are *not* allowed to grow their total loans. As this is unsustainable, the SBV also revealed that they would begin purchasing collateralized bad debt from weak commercial banks in order to strengthen their balance sheets. Though a bit heavy-handed, we believe that this is preparation for possible bank mergers, as they will have to reveal their NPLs.

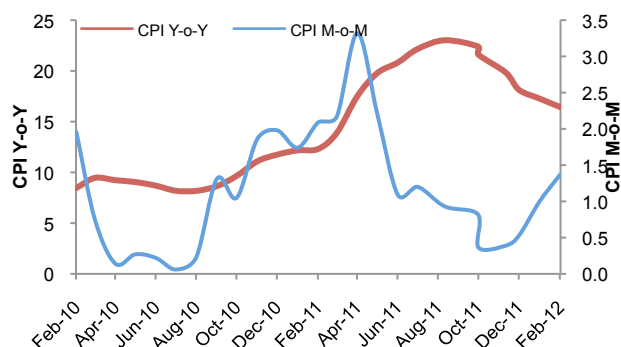
To whet the appetite of foreign investors, the government announced that it would hold IPO's for every State-owned bank (except for Agribank) by the end of 2012. Also being offered in an IPO is Vinatex, Vietnam's largest clothing manufacturer, wholly state-owned, and with 20% market share of the textile market. This gem has been a closely guarded asset, thus it being offered in an IPO demonstrates that the government is earnest about its efforts for equitization.

Confidence in the VND strengthened in February and it even appreciated slightly. The reference rate has not been revised since it was set at 20,828 on December 26th and the free market rate has been steadily appreciating to finish the month at 20,870. Increasing banking stability, slowing import growth, and the influx of foreign currency from SOE companies forced to repatriate their USD has led to renewed strength which is also a driving factor in the current stock market rally.

Domestically, we believe that developments are moving in the right direction. However, there are still a number of factors that can slow the recovery, many of which come from beyond Vietnam's borders.

Indicators	Feb-12	YTD	Y-o-Y	2011
GDP Growth (%)				5.9%
Inflation (%)	1.4%	2.4%	16.4%	18.1%
Exports (\$Bn)	\$8.2	\$15.3	24.8%	\$96.2
Imports (\$Bn)	\$9.0	\$15.9	11.8%	\$105.8
Trade Deficit (\$Bn)	\$0.8	\$0.6	-65.8%	\$9.5
Disbursed FDI (\$Bn)	\$0.6	\$1.0	-9.1%	\$11.0
VND/USD	20,870	0.8%	0.0%	21,036

Source: Government Statistics Office (GSO), Vietcombank



Equity Market

The VN Index continued the rally that started in January through February by gaining 7.9% in EUR terms during the month (9.5% in VND terms). By gaining 20.5% in VND terms for the year, Vietnam has started to make headlines with international press calling for foreign investors to take another look at this 'pre-emerging' market. Facilitating foreign investment into equities have been the two existing ETFs that have recorded large capital inflows, and have helped boost large cap stocks. Currency stability is definitely a major factor fuelling this rally as the VND has not depreciated significantly yet this year and with a clear message from the central bank that the VND would not depreciate more than 3% in 2012.

We are looking for much wider participation on the part of retail investors, which we are not seeing yet. A reduction in policy interest rates will bring lower deposit rates and these should draw some money out of deposits and into the incredibly cheap equity market. Then we will see much stronger growth in the small and mid cap stocks that we have been accumulating.

Real Estate Market

The real estate market has not changed very much in the last month. The office component is still oversupplied with more supply coming online shortly. For instance, a 346 meter tall tower, the second tallest in SE Asia after the Petronas towers, is being built in Hanoi. Called the Keangnam Hanoi Landmark Tower, this new building is located 30 minutes from the Central Business District (CBD) and will add 50% more Grade A space to the market. Hanoi's office space market has had a tougher time with the real estate downturn as business activities were harder hit leading to rents in the CBD falling, but persistently increasing vacancy rates. Adding another 100,000 square meters of very competitively priced space to the market is drawing many office tenants away from the CBD, which Jones Lang LaSalle says will drive office rents in Hanoi to a 5-year low.

Financial stocks are experiencing a nice pop from the expectation of lower policy interest rates. However, listed real estate stocks, another sector that is sensitive to interest rate movements, have not experienced the same attention and probably will not until inflation comes down, interest rates come down, and credit for real estate development is loosened.

Vietnam Equity Holding (VEH) Monthly Update

February 2012

NAV per share	€1.96
Share price	€1.16
Discount	40.7%
Total NAV	€42,522,319

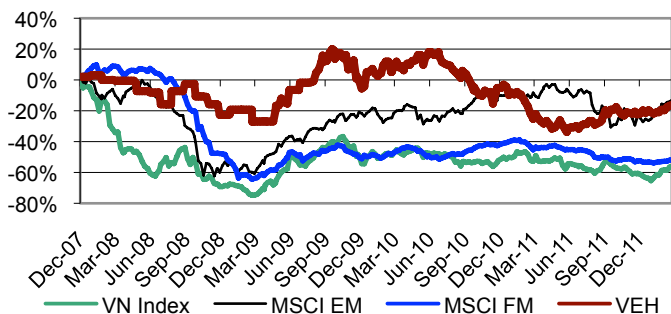
Performance

	%	Monthly	YTD	Year End 2010	Since Inception
NAV per share		3.9	6.1	-7.5	-16.5
Share price		10.5	11.5	-38.9	-56.2
VN Index in EUR		7.9	18.1	-17.8	-62.7
MSCI EM in EUR		3.7	14.3	-6.1	-3.8
MSCI FM in EUR		0.2	-0.3	-19.9	-46.8

VEH Update

In February, VEH's un-audited NAV per share was €1.96, representing an increase of 3.9% from €1.88 at the end of the prior month. Over the same period, the VN Index increased 7.9% in EUR terms (up 9.2% in VND terms). The NAV increase was mainly due to a 6.9% increase in portfolio value from the increase in price of listed stocks offset by a 1.0% unrealized FX loss from the appreciation of the EUR against the VND and a 1.9% write-down of an OTC holding; the write-down will be incorporated in the 2011 audited results. The investment manager continues to rebalance into small and mid cap stocks with strong fundamentals and higher reward/risk ratio to capitalize on the potential upside gain from an anticipated long-term rebound in the Vietnam stock market.

Performance

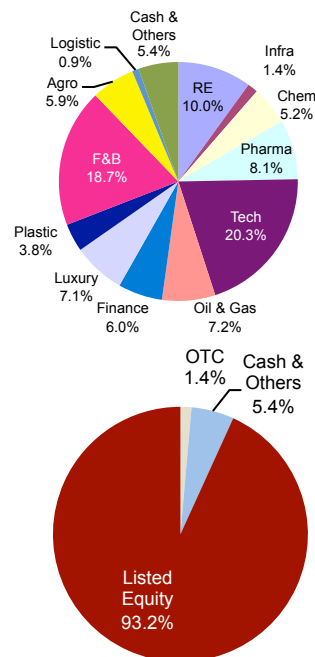


VN Index – last 6 months



Source: Bloomberg

Portfolio by Sector and Asset Allocation



Top Holdings

Vinamilk (VNM)	18.7%
FPT Corp (FPT)	17.0%
Phu Nhuan Jewelry (PNJ)	7.1%
Development Investment Corp (DIG)	5.9%
Hau Giang Pharmaceutical (DHG)	5.3%

Foreign Investors' Net Buy on HOSE

Date	Volume (Mn shares)	Value (\$Mn)
Feb-12	75.5	72.5
Jan-12	-144.3	-97.9
Dec-11	-43.6	-74.1
Q4 2011	-68.4	-67.9

About Saigon Asset Management

Established in 2007 in the Cayman Islands with representative offices in Ho Chi Minh City, SAM manages Vietnam Equity Holding (VEH) and Vietnam Property Holding (VPH) and employs over twenty professionals with diverse international financial backgrounds and proven track records.

Louis Nguyen
Chairman & CEO

Chinh Hoang
Director, Equity Investments

Peter Dinning
Senior Managing Director
Real Estate Investments

Kevin Flaherty
Managing Director
Energy & Natural Resources Investments

Hien Vu
Managing Director
Real Estate Investments

Huy Do
Executive Vice Chairman

Antony Nezcic
Director, Economics

Structure	Cayman Islands registered closed-end funds	
Funds launch	November 2007	
Duration	5 Years (subject to shareholder vote for extension)	
Listed	Frankfurt Stock Exchange (FSE) and Xetra	
Management Fee	2% of NAV	
Performance Fee	20% of gains over 8% hurdle with high water mark	
Auditor	Grant Thornton	
Legal Counsel	Reed Smith LLP & Appleby	
Administrator Custodian	Deutsche Bank (Cayman) Ltd Deutsche Bank AG, Ho Chi Minh City Branch	
Clearing/Settlement	Euroclear or Clearstream	
Market Makers	886 AG +49 6101 98861 18, www.886ag.de LCF Rothschild +44 207 845 5900, www.lcfr.co.uk	
Bloomberg	VEH: 3MS:GR	VPH: 3MT:GR
Reuters	VEH: 3MS.DE	VPH: 3MT.DE
ISIN	VEH: KYG936251043	VPH: KYG9361R1074