

Vietnam Equity Holding (VEH) Monthly Update
August 2012
Macroeconomic Update

As many are well aware due to extensive reporting, Vietnam experienced an interesting turn of events in August. Interrupting what seemed like 'business as usual' was the arrest of Nguyen Duc Kien – a founding shareholder of Asia Commercial Bank (ACB) and recognized as a banking tycoon – on August 21st and the subsequent detainment of the CEO of ACB Ly Xuan Hai for questioning related to the matter. Kien was charged with conducting "illegal business" and Hai was charged with "violating state regulations on economic management", though the events that these charges are related to still have not been specified to the public. Rumors circulated that other executives were arrested (not just banking executives) and fear spread through the marketplace though it turned out that most of the rumors were unfounded. ACB experienced 'greater than usual withdrawals' that day and the next. The State Bank of Vietnam (SBV) acted to ensure a collapse could not happen by injecting 18 trillion dong into the banking system. Despite this massive injection of liquidity, the overnight interbank lending rate still jumped more than 300 basis points to 6.8% while yields on government bonds increased marginally. The liquidity situation of the banking system stabilized soon after and the SBV was able to withdraw money from the system as depositor confidence was restored.

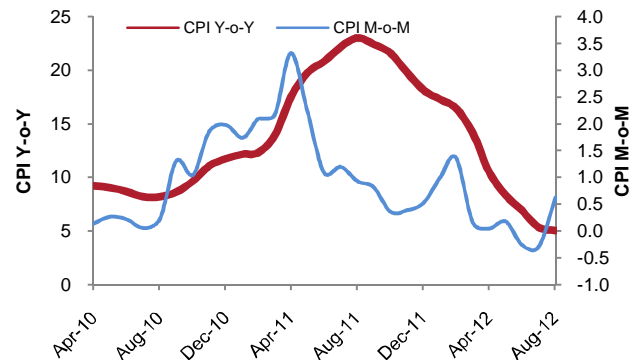
Vietnam's Y-o-Y inflation rate fell to 5.04% in August from 5.35% in the previous month, however M-o-M inflation accelerated to 0.63% – the first positive monthly inflation rate since May – indicating pressure from increasing fuel prices and food prices. Given the SBV's interest rate reductions earlier in the year, one might believe that credit growth is fueling the slight acceleration in inflation, however credit growth has been anemic at 1.07% for the year through August 8th. In fact, to address this slow growth, the SBV selectively chose healthy commercial banks and gave them permission to increase their total loans by up to 27% from initial targets of 18%. The SBV has also lowered its overall credit growth forecast for 2012 to 8-10% from the target of 15-18%. This slow credit growth is still attributed to banks being restricted by high levels of non-performing loans (NPLs) and no solutions for solving this problem have been announced, however the SBV has said that they are drafting measures to check bad debt at banks. We hope this means a set of rigid guidelines defining NPLs that must be followed by all banks to implement a semblance of transparency in the system.

Vietnam's trade balance for July improved on revised numbers to a surplus of approximately \$700 million, though these gains were apparently erased in August with a YTD deficit of \$62 million. This is still a very manageable number especially when compared to the same period last year when Vietnam had a deficit of \$6 billion. The low trade balance translates into a very positive balance of payments for 2012 and increased FX reserves despite the recent bank stabilizing efforts.

We are optimistic about Vietnam's recovery prospects even with the recent uncertainty swirling through the marketplace. Notably, the HSBC Purchasing Managers' Index (PMI) increased to 47.9 from 43.6 in the previous month. Although this month's number still implies that the economy is not growing, it does also show that the economy is slowing less quickly than in July (a number above 50 implies growth). We anxiously await a higher PMI number in September combined with higher confidence throughout the market in relation to the government's efforts to restructure the economy.

Indicators	Aug-12	YTD	Y-o-Y	2011
GDP Growth (%)		4.4%		5.9%
Inflation (%)	0.6%	2.9%	5.0%	18.1%
Exports (\$Bn)	\$9.8	\$73.4	17.8%	\$96.2
Imports (\$Bn)	\$10.0	\$73.4	6.7%	\$105.8
Trade Deficit (\$Bn)	\$0.1	\$0.1	-99.0%	\$9.5
Disbursed FDI (\$Bn)	\$1.0	\$7.3	-0.3%	\$11.0
VND/USD	20,880	-0.7%	0.22%	21,036

Source: General Statistics Office of Vietnam (GSO), Vietcombank


Equity Market

The Vietnam Index (VNI) started the month by gaining on low liquidity and by August 20th it reached a high of 437.61, the highest level since May. On August 21st, the arrest of Nguyen Duc Kien was announced and the index fell to the 'limit down' of 5% loss for the day. The rest of the month was not very encouraging as rumors circulated throughout the market about possible reasons for the arrests and possible arrests of other executives. This had the effect of seriously depressing investor confidence even though the market had been gaining well in the first half of the month. On the other hand, foreign investors are apparently immune to local market psychology, and were attracted by low prices as during the four days of trading following Kien's arrest, they net purchased \$15 million of equities and continued this trend of buying through the rest of the month with a final net purchase of \$28 million, the most since April.

During the month, the State Securities Commission (SSC) announced that they would reduce the minimum holding period of newly purchased stocks to 3 days from 4 (the new rules took effect on the September 4th), they are considering raising the trading band limits which now stand at 5% on the Ho Chi Minh Stock Exchange and 7% on the Hanoi Stock Exchange, and they are considering implementing an online trading auction system to cut the time between placing orders and execution. The approved reduction in the holding period for stocks has already had a positive effect on liquidity and the other proposals, which we hope are implemented, will most likely also have further positive effects on Vietnam's equity market.

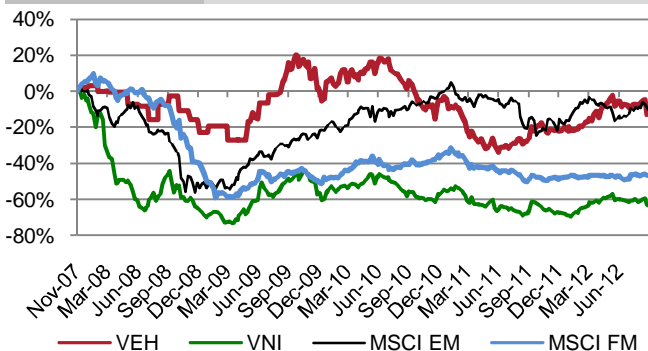
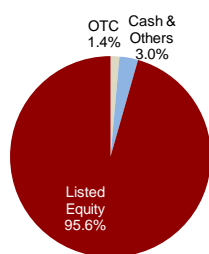
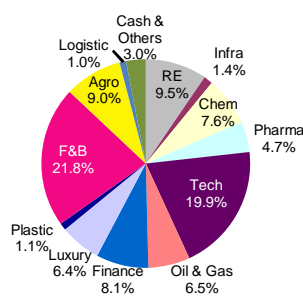
Real Estate Market

During August, Nguyen Duc Kien's arrest also highlighted the general uncertainty in the banking system due to the high levels of non-performing loans (NPLs). However, encouragingly, the SBV announced that interest rates have fallen significantly and that only 29% of outstanding loans bear interest rates of above 15%, while the majority (68%) loans bear interest rates in the 10%-15% range. These numbers represent a significant commitment on the part of the banks to renegotiate current outstanding loans – giving developers a slight reprieve – and to dilute bad loans with an influx of new better loans. Although credit growth has been anemic at 1.07% YTD, it seems that banks have been aiming to replace the bad corporate loans on their books with better consumer loans. The SBV announced that it was not likely that interest rates would be reduced further – this may convince prospective homebuyers to enter the market now instead of trying to wait for lower rates. Prospective homebuyers will be additionally enticed by large price reductions (up to 30%) being applied to completed buildings looking for owners and tenants. In conclusion, Vietnam is far from fixing its current NPL problems, however positive progress is being made to at least encourage demand in the market driven by the lower prices and low interest rates.

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NAV per share	€2.06
Outstanding Shares	21,707,910
Share price	€1.36
Discount	33.7%
Total NAV	€44,623,204

	%	Monthly	YTD	Year End 2010	Since Inception
NAV per share		-4.4	13.1	-2.8	-12.2
Share price		0.0	30.8	-28.4	-48.7
VN Index in EUR		-6.2	17.5	-18.2	-62.9
MSCI EM in EUR		-2.7	6.5	-12.5	-10.3
MSCI FM in EUR		-0.3	1.0	-18.8	-46.2


Portfolio by Sector and Asset Allocation

VEH Update

In August, VEH's un-audited NAV per share was €2.06, representing a decrease of 4.4% from €2.15 at the end of the prior month. Over the same period, the VN Index decreased 6.2% in EUR terms (down 4.5% in VND terms). The NAV decrease was mainly due to a 2.6% loss in portfolio value from the decrease in price of listed stocks combined with a 1.9% unrealized FX loss from the appreciation of the EUR against the VND.

Share Buyback Program

The NAV was also supported by 0.03% through the implementation of the share buyback program in August, during which 7,600 shares were repurchased. In total, 37,600 share have been repurchased through the share buyback program.

Investment Manager Update

We continue to screen for opportunities to rebalance into small and mid cap stocks with strong fundamentals and higher reward/risk ratios to capitalize on the potential upside gain from an anticipated long-term rebound in the Vietnam stock market.

VN Index – last 6 months: Bloomberg


Top Holdings	% of NAV
Vinamilk (VNM)	21.8%
FPT Corp (FPT)	15.7%
Phu Nhuan Jewelry (PNJ)	6.4%
Development Investment Corp (DIG)	5.1%
PetroVietnam Fertilizer & Chemicals (DPM)	4.7%

Foreign Investors' Net Buy on HOSE		
Date	Volume (Mn shares)	Value (\$Mn)
Aug-12	20.1	28.6
Jul-12	5.8	4.0
Jun-12	-32.7	-31.2
Q2 2012	-47.2	-60.5

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

Peter Dinning
Managing Director
Real Estate Investments

Chinh Hoang
Director
Equity Investments

Kevin Flaherty
Managing Director
Energy & Natural Resources Investments

Antony Nezic
Managing Director
Impact & Agriculture Investments

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.886aq.de LCF Rothschild +44 207 845 5900, www.lcf.co.uk	
Bloomberg	VEH: 3MS:GR	VPH: 3MT:GR
Reuters	VEH: 3MS.DE	VPH: 3MT.DE
ISIN	VEH: KYG936251043	VPH: KYG9361R1074