

Vietnam Equity Holding (VEH) Monthly Report

March 2012

Macroeconomic Update

Based on March inflation growth of only 0.16% M-o-M and slowing to 14.2% from 16.4% Y-o-Y in the previous month, the State Bank of Vietnam (SBV) determined that it had scope to loosen monetary policy slightly by lowering the repurchase and refinance rates by 100 basis points each to 13% and 14% respectively. The decision also coincided with the GSO release that the economy only expanded by an estimated 4.0% in Q1, the slowest quarterly growth since 2009. With the shaky banking sector already in the spotlight, the government is looking for ways to help banks increase liquidity and lower their non-performing loan (NPL) ratios, as well as spur economic growth.

This loosening of monetary policy gives banks room to lower their lending rates, and therefore increase lending growth, however, the deposit rate cap was also lowered to 13%. This will probably adversely affect small weak banks as they were finding it difficult to attract deposits even when the rate cap was at 14% due to their well-known weaknesses. Now, weak banks will probably need further support from the SBV, giving it more reason to accelerate reforms in the sector, which were conspicuously slow during Q1, despite statements that approximately 5-10 mergers could be expected. To strengthen the banking sector, the IMF proposed that the government should consider separating the bad debt from weak banks and selling the holdings to public or private asset management companies. Instead, the government announced that it would consider purchasing collateralized bad debt from weak banks in order to strengthen balance sheets of the banks.

Rising international oil prices also prompted the government to announce a 12% price increase of petroleum prices, bringing the price of fuel to about VND 22,900/liter, virtually identical to prices for similar quality fuel in North America. Price increases of approximately this magnitude greatly contributed to inflation growth last year, leading many to speculate that the M-o-M rate would be above 1% for the month. However, inflation growth was announced at the phenomenally low rate of 0.16%, and can only be explained by declining food prices and subdued consumer spending.

The Vietnam Dong (VND) remained stable in March, with the reference rate kept at VND 20,828. This stability can be attributed both to slowing inflation and a low trade deficit at \$0.9bn YTD. Due to new regulations from the SBV that will limit foreign denominated loans, pressure on the VND increased when the regulations were announced, and accordingly, the VND depreciated by close to 1% as businesses stocked-up on foreign currency in anticipation. However, the VND returned to its original level of VND 20,860 soon after, possibly signaling that there is enough foreign currency in the market as well as in the SBV's reserves to cover the demand.

Overall, we are seeing progress and stability, but banking sector reform needs to accelerate to sustain the economic recovery.

Indicators	Mar-12	YTD	Y-o-Y	2011
GDP Growth (%)		4.0%		5.9%
Inflation (%)	0.2%	2.6%	14.2%	18.1%
Exports (\$Bn)	\$9.2	\$24.5	23.6%	\$96.2
Imports (\$Bn)	\$9.3	\$24.8	6.9%	\$105.8
Trade Deficit (\$Bn)	\$0.3	\$0.9	-70.7%	\$9.5
Disbursed FDI (\$Bn)	\$1.5	\$2.5	-0.8%	\$11.0
VND/USD	20,860	0.8%	0.2%	21,036

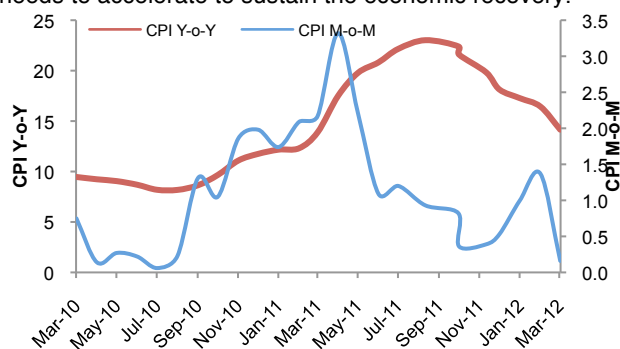
Source: General Statistics Office of Vietnam (GSO), Vietcombank

Equity Market

The Vietnam Index (VNI) continued its rise through March by gaining 4.0% in EUR terms (4.1% in VND terms); the index is up 23.1% YTD in EUR terms (25.5% in VND terms). The VNI reacted positively to both the loosening of monetary policy as well as the low inflation numbers that were released on the 24th. The financial sector continued to gain due to low valuations and despite the negative press that the sector is receiving due to the weakness of some members of the banking system. However, we may see increasing instability in those banks as funds are withdrawn and reinvested into higher returning investments due to the deposit rate cut. This is good for the VNI as domestic investors increase their participation in the equity market. In a continuation from last month, foreign investors were net-buyers; furthermore, the Credit-Default Swap rates have been falling, exhibiting greater foreign investor confidence in the recovery of the Vietnamese economy. We believe that the current bull market will strengthen when the government takes more decisive and positive actions towards weak banks, as it will further increase confidence that the country is recovering.

Real Estate Market

The real estate sector welcomed the loosening of the policy interest rates, as share prices of listed developers rallied slightly following the announcement. However, as a whole, market sentiment towards real estate remains negative, and based on anecdotal evidence, loans and mortgages are still hard to attain. Interest rates and, hence, lending rates are expected to continue to come down with lending to real estate beginning to increase, but the sector also has to deal with recalcitrant buyers who are expecting prices to decline further, even though they have already descended almost to cost. We expect slow take-up of the current supply in the near future and very little new supply coming on the market. However, foreign investors seem to be increasingly attracted to the real estate sector, with \$1.2bn newly licensed FDI (54% of total in March) going to the Binh Duong New City project, a joint venture project with a Japanese developer. Foreign investor interest in the sector is being attracted from all over the world but is particularly strong from Japan and other developed Asian nations. We expect that demand is increasing steadily, leading to prices bottoming out as real homebuyers begin attaining financing and interest rates decline further.



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NAV per share	€2.00
Share price	€1.35
Discount	32.5%
Total NAV	€43,440,005

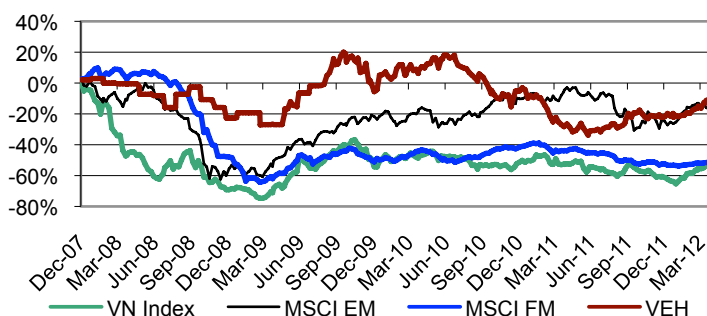
Performance

	%	Monthly	YTD	Year End 2010	Since Inception
NAV per share		2.2	9.9	-5.5	-14.7
Share price		16.4	29.8	-28.9	-49.1
VN Index in EUR		4.0	23.1	-14.3	-61.1
MSCI EM in EUR		-2.8	11.1	-8.7	-6.5
MSCI FM in EUR		1.3	1.0	-18.8	-46.2

VEH Update

In March, VEH's un-audited NAV per share was €2.00, representing an increase of 2.2% from €1.96 at the end of the prior month. Over the same period, the VN Index increased 4.0% in EUR terms (up 4.1% in VND terms). The NAV increase was mainly due to a 2.2% increase in portfolio value from the increase in prices of listed stocks, offset by a 0.8% unrealized FX loss from the appreciation of the EUR against the VND. 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

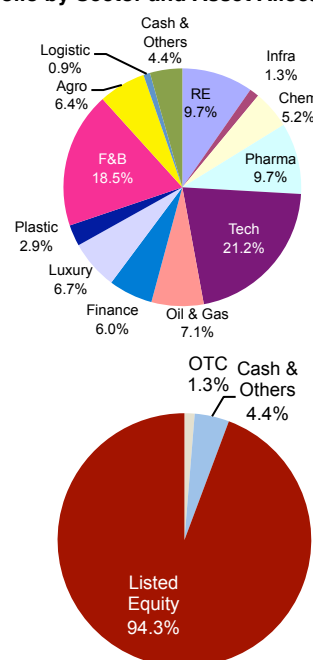


VN Index – last 6 months



Source: Bloomberg

Portfolio by Sector and Asset Allocation



Top Holdings

Vinamilk (VNM)	18.5%
FPT Corp (FPT)	17.5%
Phu Nhuan Jewelry (PNJ)	6.7%
Development Investment Corp (DIG)	5.9%
Japan Vietnam Medical Instrument (JVC)	5.5%

Foreign Investors' Net Buy on HOSE

Date	Volume (Mn shares)	Value (\$Mn)
Mar-12	44.8	64.8
Feb-12	75.5	72.5
Jan-12	-144.3	-97.9
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

Kevin Flaherty
Managing Director
Energy & Natural Resources Investments

Peter Dinning
Managing Director
Real Estate Investments

Hien Vu
Managing Director
Real Estate Investments

Chinh Hoang
Director, Equity Investments

Antony Nezig
Director, Economics

Tuan Nguyen
Deputy Director
Real Estate 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.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