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Vietnam Equity Holding (VEH) Monthly Report May 2012

Macroeconomic Update

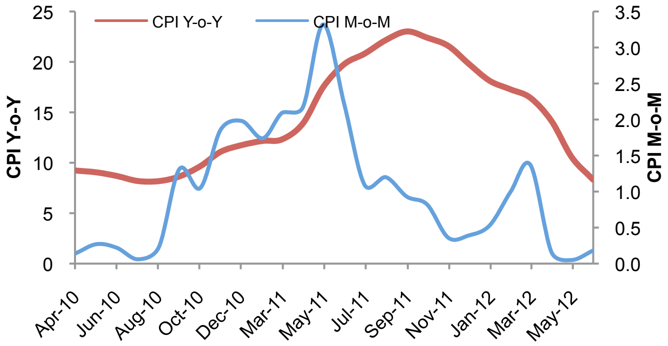
As annualized inflation fell to 8.34% in May from 10.5% in the previous month, the Vietnamese government has responded by slightly shifting its focus to put emphasis on growth as well as stabilization. Thus, instead of a controlled and slow easing of policy interest rates by 100 basis points per quarter as was initially announced by the State Bank of Vietnam (SBV), the Prime Minister asked the central bank to "speed up" interest rate cuts to encourage banks to lower their commercial lending rates. The SBV responded by lowering rates 300 basis points over the past 3 months with the latest cut taking effect on May 28th. Earlier in the month, the Ministry of Finance announced a stimulus/economic support plan cumulatively worth approximately US$1.3bn to help small and medium sized and labor-intensive businesses cope with high borrowing costs and slowing domestic demand by deferring corporate income and sales taxes. The World Bank and several international analysts are growing concerned that the government is being overly aggressive in stimulating the economy and that inflationary pressure may return as a result.

The SBV has mandated that the lending rate to preferred sectors such as agriculture and exports should not be more than 3% above the deposit interest rate, now standing at 11%, though borrowing rates remain at 15-18% for these sectors, while rates for non-preferred sectors are still as high as 20%, stifling many companies looking for loans to simply remain in operation. It is clear that many banks have idle cash since yields on 5 year government bond have fallen 294 basis points YTD from increased purchases by commercial banks, and the overnight interbank rate has fallen 11 percentage points from its peak of 12.7% on January 30th to an astonishingly low 1.5%. High amounts of non-performing loans, estimated at between 8%-14%, are keeping loan growth restrained and banks are investing idle cash in "safe" government bonds, thus diluting the current questionable loan portfolios with securities guaranteed not to default. This dilution effort is healthy for the weak banking sector, but it is coming at the expense of businesses and economic growth. Many cannot afford the losses associated with this effort and are pressuring the government to switch focus.

In May, Fitch Ratings affirmed Vietnam's rating of B+ but also revised its outlook from "Negative" to "Stable". The World Bank's chief resident economist has noted that Vietnam's economy is stabilizing "after a prolonged period of heightened turbulence", citing increasing confidence in the Vietnam Dong and sharply slowing inflation. The economy remains vulnerable, among other things described, to food and energy price pressures, though for the moment, both pressures are moderating, giving the government space to promote growth by cutting interest rates, execute structural reforms in the economy such as the effort to increase transparency in state-owned enterprises by accelerating the equitization process, as well as stabilizing the banking sector. It is debatable whether the country will reach its 6.0% growth target this year, however the current efforts will strengthen the fundamentals of the country for future growth.

Indicators	May-12	YTD	Y-o-Y	2011
GDP Growth (%)		4.0%		5.9%
Inflation (%)	0.2%	2.8%	8.3%	18.1%
Exports ($Bn)	$9.1	$42.9	24.1%	$96.2
Imports ($Bn)	$9.8	$43.5	6.6%	$105.8
Trade Deficit ($Bn)	$0.7	$0.6	-90.6%	$9.5
Disbursed FDI ($Bn)	$0.9	$4.5	0.2%	$11.0
VND/USD	20,890	0.7%	-1.4%	21,036

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



Equity Market

The Vietnam Index (VNI) stumbled in May and fell 9.4% in VND terms (down 2.9% in EUR terms) on selling pressure from international markets. Uncertainty over the Eurozone crisis was strong enough to make foreigners curtail buying activities during the second half of the month. International worries also weighed on the minds of domestic investors, however they were also concerned with what many perceived to be slow movement from the SBV to ease policy interest rates, thus profit-taking prevailed for much of the month. After the initial sell off, average daily volume traded on the index fell from 110 million shares to 60 million shares and the index traded sideways for much of the rest of the month. All sectors were affected by the sell off, with small and mid caps hit harder than large caps. With the interest rate cut on May 28th, we believe that the government's recent efforts to reduce borrowing costs will likely translate to positive gains for the VNI as companies begin to borrow again and economic growth accelerates. Towards the end of the month, rumors began to circulate that authorities are discussing the possibility of raising the foreign ownership limits in local banks, currently standing at 30%. This kind of reform should help Vietnam's banking sector as international banks and investors will demand greater transparency, and it will most likely help the share prices of many listed banks.

Real Estate Market

Lending rates for non-prioritized sectors still have not fallen significantly, keeping the real estate market from thawing, but recent interest rate cuts by the central bank will most likely generate renewed interest in real estate. The falling deposit interest rate cap has been convincing many that depositing money in bank accounts is no longer a viable investment channel. This has been combined with the fact that prices of real estate have fallen an average of 30% in the last couple years, leading many to take a second look at the market. We expect the government to support the sector in the near future to help clean up bank balance sheets, increase demand, as well as help ailing developers finish delayed projects. However, we expect the banking sector to remain wary of increasing loan issuance to the real estate sector due to the current issues arising from high levels of real estate NPLs, leading to very little new supply developed in the near future. The looser monetary policy should help a rally of listed real estate companies materialize, as retail investors will begin to make bets on increasing economic growth and increasing demand for real estate. Overall, we are starting to see signs that the sector may be hitting bottom and that demand will increase in the near future.

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NAV per share	**€2.22**
Share price	**€1.36**
Discount	**38.8%**
Total NAV	**€48,344,206**

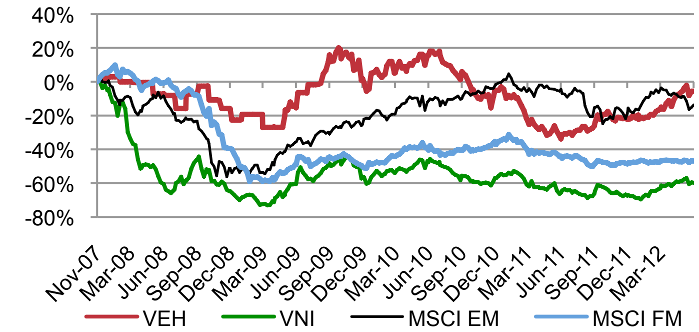
Performance

%	Monthly	YTD	Year End 2010	Since Inception
NAV per share	0.8	22.4	5.2	-5.0
Share price	3.8	30.8	-28.4	-48.7
VN Index in EUR	-2.9	29.3	-10.0	-59.1
MSCI EM in EUR	-5.4	3.6	-14.8	-12.7
MSCI FM in EUR	0.8	0.7	-19.1	-46.3

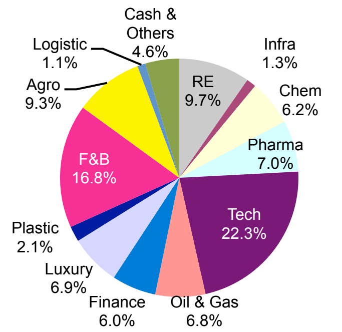
VEH Update

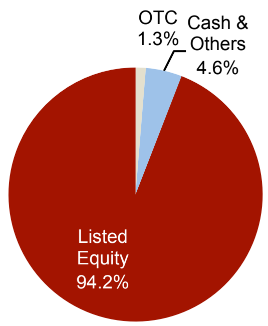
In May, VEH's un-audited NAV per share was €2.22, representing an increase of 0.8% from €2.21 at the end of the prior month. Over the same period, the VN Index decreased 2.9% in EUR terms (down 9.4% in VND terms). The NAV increase was mainly due to a 7.2% gain unrealized FX gain from the depreciation of the EUR against the VND offset by a 6.5% loss in portfolio value from the decrease in prices of listed stocks. 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

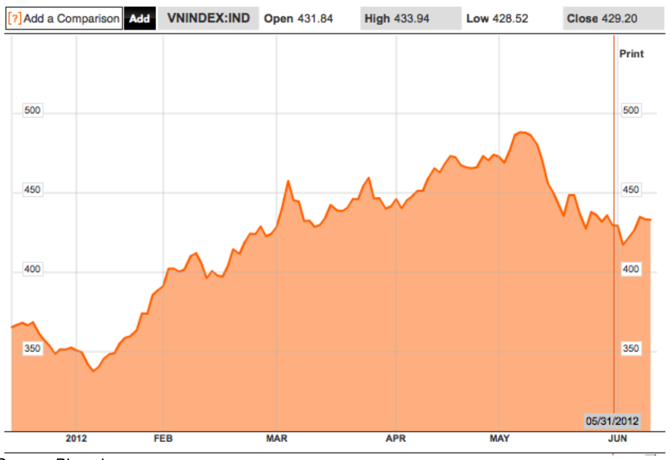


Portfolio by Sector and Asset Allocation





VN Index – last 6 months



Source: Bloomberg

Top Holdings	
FPT Corp (FPT)	18.1%
Vinamilk (VNM)	16.8%
Phu Nhuan Jewelry (PNJ)	6.9%
Development Investment Corp (DIG)	5.7%
Japan Vietnam Medical Instrument (JVC)	4.5%

Foreign Investors' Net Buy on HOSE

Date	Volume (Mn shares)	Value ($Mn)
May-12	11.4	6.1
Apr-12	-25.9	-35.4
Mar-12	44.8	64.8
Q1 2012	-24.0	40.6

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

Tuan Nguyen
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