

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

In September, inflation in Vietnam ominously returned with a M-o-M growth rate of 2.2%, well above the 1% threshold that is considered safe for the Vietnamese economy. Consequently, and bucking a trend that has lasted more than a year, Y-o-Y inflation grew to 6.48% from 5.04% in the previous month. The increase was mainly due to a price increase of healthcare services and medical items as approved by the Ministry of Health in August, and a seasonal price hike of 10.5% in education items as schools reopened from the summer holidays, prompting consumption increases reflected in an increase in HSBC's Purchasing Managers' Index (PMI) to 49.2 from 47.9 in August (a number above 50 indicates economic growth) on better domestic orders. Even though this month's rate far exceeded estimates, the two price increases cited were one-off events and this month's inflation rate is not yet indicative of significantly improved domestic demand.

Imports slowed from August, though the estimates are that they were higher than exports in September with a relatively high monthly deficit, supporting the theory of increasing consumption. Exports also slowed and new export orders fell by the most in the short history of HSBC's Vietnam PMI series, reflecting difficult economic conditions internationally. Year-to-date, Vietnam still has a slight trade surplus, however policy makers are estimating that the country will have a total trade deficit of US\$1 billion by year-end, thus they are forecasting increasing imports for the last three months of the year.

Credit growth has started to occur in the economy with outstanding loans growing 2.35% at September 20th from year-end 2011, supported by deposits increasing 11.23% throughout the system (though much of the deposit increase can be attributed to high interest rates paid on deposits). However, Techcombank has acknowledged that they will not reach their original credit growth target of 17%, and considering this is a relatively strong bank, the same is likely true for most other banks due to deleveraging efforts.

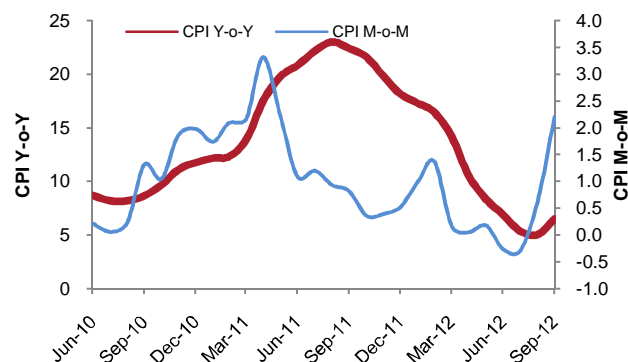
The ratings agencies S&P and Moody's took contrasting actions during September with S&P upgrading the country's Banking Industry Country Risk Assessment score and Moody's downgrading Vietnam's sovereign credit rating. S&P explained that they saw reduced short-term "risk of economic imbalances through moderated loan growth and more stable prices." On the other hand, Moody's explained that their downgrade is attributed to the long-term "elevated risk that the costs of recapitalizing the banking system will have to be borne, at least in part, by the government." The government is likely aware of the existence of the long-term risks and will implement appropriate measures to mitigate them.

The announcements of the unrestricted ECB bond purchasing program and the initiation of the US Fed's Quantitative Easing program 3 will have mixed results on Vietnam. At the moment Europe is not in great shape and cannot be viewed as a large export market or major source of investment. However, the US is a different story as most agree that its economy is recovering and we expect to see increasing investments from US companies as the Fed's program takes effect.

We expect next month's CPI result to be more in line with the general trend of this year being low inflation and that credit growth will remain weak. As such, economic growth will likely remain weak in Q4, despite the seasonal boost that normally occurs. The main threats to the economy remain to be soft domestic demand and softening global demand and it is expected that the government will use this time to make substantive reforms to restructure the economy.

Indicators	Sep-12	YTD	Y-o-Y	2011
GDP Growth (%)	5.4%	4.7%		5.9%
Inflation (%)	2.2%	5.1%	6.5%	18.1%
Exports (\$Bn)	\$9.7	\$83.8	18.9%	\$96.2
Imports (\$Bn)	\$9.8	\$83.8	6.6%	\$105.8
Trade Deficit (\$Bn)	\$0.1	-\$0.034	-100.5%	\$9.5
Disbursed FDI (\$Bn)	\$0.8	\$8.1	1.2%	\$11.0
VND/USD	20,900	-0.6%	0.32%	21,036

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


Equity Market

September was a month of wildly swinging emotions among investors, resulting in poor performance for the Vietnam Index (VNI) as it lost 0.9% in VND terms (down 3.4% in Euro terms), closing the month at 392.6 from 396.0 at the end of August, on weak liquidity with an average of 31.5mn shares traded per day. The market continued to be affected by nervousness among domestic investors following further arrests of executives and the resignations of members of the boards of Asia Commercial Bank and Eximbank. Other factors that affected market sentiment were the article published proposing that Vietnam would need an IMF bailout to recapitalize its banks (though this was officially denied by the government and the IMF) as well as the announcement of a high inflation figure by mid-month. Foreign investors slowed their buying activities during the month and were net sellers of shares but registered as net purchasers in terms of value. The market continued to be supported by the performance of several large cap stocks as other small and mid cap stocks underperformed. The market is expected to be sideways due to the uncertainty regarding economic and banking reform until the meeting of the Communist party closes in mid-October.

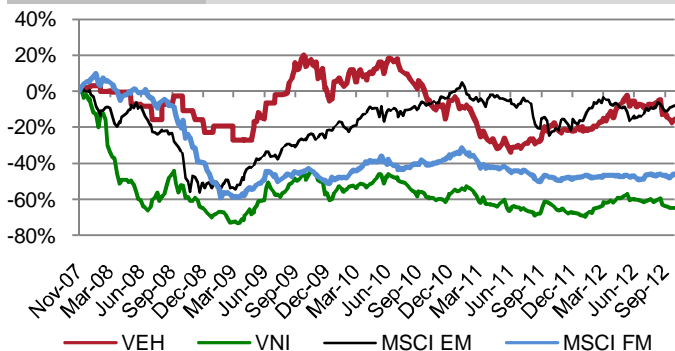
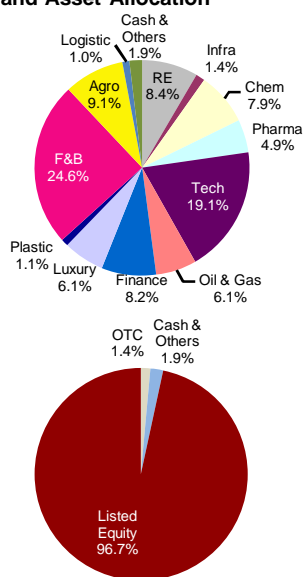
Real Estate Market

The real estate market is still gloomy. The high amounts of NPLs – most are loans for real estate activities – are weighing on banks' ability to lend further to real estate. We have seen further efforts on the part of developers to reduce prices with the hopes of attracting buyers, however we know of several projects in which prices have been reduced to cost. Obviously, for cash-strapped developers, the next step is to lower prices below cost, and as such, we expect to continue to hear of significant hardship among developers over the next few months. Encouragingly, rents for office space in Ho Chi Minh City may be beginning to stabilize as rents for grade B buildings increased slightly Q-o-Q and vacancy has continued to fall. Though many new office projects exist throughout the city, construction progress has been very slow – largely due to lack of financing – and thus supply of office space is not forecasted to increase significantly faster than demand. On the other hand, Hanoi is a different story as its property market continues to be distorted by large amounts of recently added supply. Back to the residential segment, many people have come out in surveys to say that they did not believe that now is the right time to buy real estate, but we expect this attitude to change as the economy stabilizes and grows. Due to relatively large turnover in the affordable housing segment, we expect it to do well in comparison with other segments and for the general aversion to real estate to decrease in the medium to long term.

Vietnam Equity Holding (VEH) Monthly Update
September 2012

NAV per share	€1.98
Outstanding Shares	21,703,510
Share price	€1.33
Discount	33.0%
Total NAV	€42,985,705

	%	Monthly	YTD	Year End 2010	Since Inception
NAV per share		-3.7	9.0	-6.3	-15.4
Share price		-2.2	27.9	-30.0	-49.8
VN Index in EUR		-3.4	13.5	-18.2	-64.1
MSCI EM in EUR		3.5	10.3	-9.4	-7.1
MSCI FM in EUR		1.8	2.8	-17.4	-45.2


Portfolio by Sector and Asset Allocation

VEH Update

In September, VEH's un-audited NAV per share was €1.98, representing a decrease of 3.7% from €2.06 at the end of the prior month. Over the same period, the VN Index decreased 3.4% in EUR terms (down 0.9% in VND terms). The NAV decrease was mainly due to a 1.2% loss in portfolio value from the decrease in price of listed stocks combined with a 2.6% unrealized FX loss from the appreciation of the EUR against the VND.

Share Buyback Program

The NAV was supported by 0.02% through the implementation of the share buyback program in September, during which 4,400 shares were repurchased. In total, 42,000 shares have been repurchased through the share buyback program.

Extraordinary General Meeting Update

The Extraordinary General Meeting Continuation Vote held on October 3rd, 2012 was held successfully and both resolutions passed. Results are available on the SAM website.

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)	24.6%
FPT Corp (FPT)	15.0%
Phu Nhuan Jewelry (PNJ)	6.1%
DABACO Corp (DBC)	5.4%
Development Investment Corp (DIG)	4.3%

Foreign Investors' Net Buy on HOSE		
Date	Volume (Mn shares)	Value (\$Mn)
Sep-12	-3.0	6.7
Aug-12	20.1	28.6
Jul-12	5.8	4.0
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.886ag.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