

## VIETNAM INTELLIGENCE

Welcome to the *Vietnam Intelligence – March 2010*, a monthly publication that contains our regular roundup of market views and fund updates from the Vietnam investment team of Manulife Vietnam Fund Management Company Limited (“MVFM”).

### Inflation outlook: March 2010

*“Inflation has crept up but is still manageable”.*

By Sebastian Subba, Chief Investment Officer

For Vietnam, inflationary pressures appear the biggest economic concern, as demand and prices are expected to continue firming in 2010. Vietnam’s CPI rose by 8.46% in February, and on a m-o-m basis was 1.96%, the sixth month in which prices have increased more than 1%. Consumer price inflation accelerated in February, led by demand-side pressures that have pushed up the general price levels. The consumer price index was up 1.96%, compared with 1.35% in January, or 3.5% in comparison with December 2009. February numbers are also higher, as demand increased ahead of the Tet lunar New Year, when the whole country historically shuts down for the longest national holiday in the Vietnamese calendar.

The authorities last week moved to reassure businesses and the public that it will keep inflation below its targeted 7% amid fears that it could spiral out of control this year. There is a growing concern that the demand side pressures and recent increases in gasoline and energy prices will create high inflation for the year, especially after the easing of monetary policies in 2009. In February analysts warned that the CPI could increase sharply in March after the authorities allowed the country’s sole electricity distributor to increase its selling price by 6.8% from March 1, and for gasoline prices to rise by 0.3% from February 24<sup>th</sup>.

As a general trend, CPI in the first two months often accounts for almost half of the overall weighted CPI for the whole year. This has been the case in previous years. The difference in CPI this year will defer, due to the real hikes in inputs like petrol and power (electricity) as well as in the recent depreciation of the VND dong against the USD. Various government bodies like the National Supervision Commission are projecting March CPI at between 0.5% to 1%, while the Finance Ministry puts March CPI at 0.5 to 0.75% and the Ministry of Planning and Investments projects it at 1%.

We have seen no abnormal signals in the consumer price index in the first two months of 2010 and maintain that it is the psychological factor that prevails over real inflation. Our view is that inflation is expected to be under control, while credit growth is expected to be lower than the permitted rate of 25%, due to the tightening policies applied since the end of 2009. In particular, the tightening of monetary policies has resulted in a fall in mobilized funds in the first two months of 2010. Forecast credit growth is therefore lowered to less than 20%, even though GDP target is expected to rise by some 6.5%, in line with our consensus. With exports bouncing back substantially in Q1 2010, Vietnam’s economy is expected to gain strength from domestic consumption and an improvement in investments.

To tackle inflation, and at the same time maximize economic and growth initiatives,

the Central bank has recently allowed banks to set their own rates for medium- and long-term loans, somewhat reducing the significance of the base rate and easing short term pressures on the central bank to raise the base rate further. Recall that local policy rates were last hiked by 1% to 8% in December 2009. It is likely that the next interest rate hikes will be spread incrementally throughout 2010, perhaps in the second half of the year.

Overall, our current view is that CPI is still controllable and some spikes in food prices during the Tet festivals are now already readjusting to pre-Tet levels.

### Equity market Outlook

***Mark Canizares, Head of Equities, takes a look at some of the head and tailwinds buffeting the Vietnamese equity market.***

As the festivities of Tet wind down and the second quarter of 2010 sets in, the big question in investor's minds is whether there would be a rally this year similar to what we experienced last year. Recall that towards the end of February 2009, the VN Index started to wake up, allowing it to finish 2009 on a very strong note, rising more than 50%. In the last two months, the VN Index has oscillated between 470 and 550 points, given the lack of leads during the period and the slow trading leading to the annual Tet festival.

We believe that as the market buckles down again to work, focus will shift back to investors looking at the 2009 performance of the listed corporates and, more importantly, what they are expecting for 2010. The outlook is generally positive, in that consensus expects earnings to expand by at least 5% this year (on a normal, recurring basis). However, the tricky part, in our view, is how companies will perform this year as the effect of the stimulus package put

in place in 2009 comes to an end. On the consumption side, disposable incomes would see a reduction as VAT is reinstated to 10% (5% in 2009) and personal income tax rates return to normal, following 2009's 6-month income tax waiver. On the corporate front, the 4% interest rate subsidy for loans has been reduced to 2%, while a recent move of the SBV removed caps on loan rates, which would put further pressure on company earnings as financing costs rise. This, coupled with a 100 basis point increase in the base rate towards the end of 2009 and a 3.3% weakening of the Vietnamese Dong before February 2010 will likewise add to the list of challenges that companies have to face this year.

Despite all these, our outlook for 2010 remains positive. We are looking forward to an expected normalization of earnings (write-offs in 2008, write-backs in 2009), and sustained earnings growth, especially for the domestic companies. We believe companies exposed to Vietnam's burgeoning domestic economy and sustained pace of industrialization will continue to see earnings expand this year. Moreover, exporters should benefit from demand offshore and the weaker local currency, which will make Vietnam's agriculture exports competitive with the rest of the region.

March and April will most likely be two of the most watched months in the corporate calendar. After the lack of fresh leads in the fourth quarter of last year that led to the correction of markets, the reporting season will help reignite retail investor interest in this market, in our view, ultimately providing the catalyst for the markets to resume their uptrend and recovery this year.

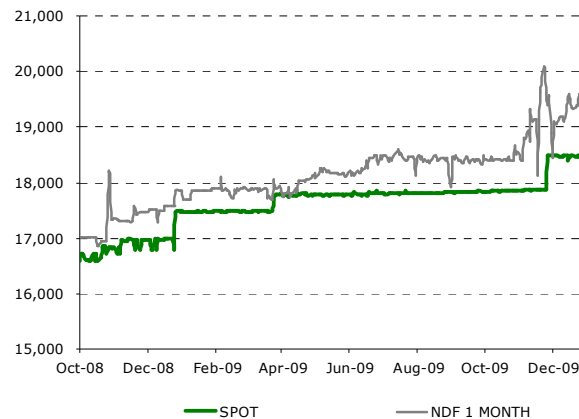
## Fixed Income Market Outlook

### *Putu Yudhana, Fixed Interest Manager, examines the impact of devaluation on fixed income investments in Vietnam*

In February 2010, the government devalued the VND currency by 3.4%. This was the second time in less than three months, where the gap between the official rate and market expectations has been wide. This event has been quite effective at reducing the USD shortage in the market, critical especially for importers' daily operations. Our view is also that the devaluation may be able to justify further policy decisions to increase the interest rate, in order to maintain the Purchasing Power Parity. During the month, there have been pressures to increase the base rate currently at 8%, especially for its impact to the deposit rate cap of 10.5%. It is difficult for some local banks to source funding, so any adjustment in the base rate will have a positive impact on the banking sector in general.

At the same time, the central bank also imposed a 1% ceiling on USD deposit interest rates for economic institutions. This decision is expected to increase the supply of USD to the market, as there would be fewer incentives for investors to hold USD dollars. However, we think USD holdings might still be preferred as the depreciating trend of VND is expected to continue. An expected higher trade deficit for 2010 could lead to a higher demand for USD.

### **USD/VND Exchange Rate**



(Source: Bloomberg)

A more relaxed policy on the interest rates outlook has been announced in early March 2010. The central bank has allowed commercial banks to set their own rates for medium and long term loans, instead of being capped based on the policy base rate. We see this as a positive development especially for banks, and will ease pressure for the central bank to raise the base rate at this point in time.

For the bond market, interest rate increases in the real sector may also justify the government's action to adjust its ceiling rate, which has been much below market expectations. In the second week of March 2010, the ceiling rates for 2 and 3 year bonds were finally increased to 12% from previously at 11.4%, leading to successful auctions with significant issuance size. Going forward, we still expect the primary market issuance will still be concentrated on the short term series, as high demands have been coming from banks. There is a plan for long term bond issuance by Vietnam Development Bank (10 and 15 years), but no firm timelines are available at the moment.

## FUND UPDATES

### MANULIFE PROGRESSIVE FUND (MAFPF1)

#### Introduction

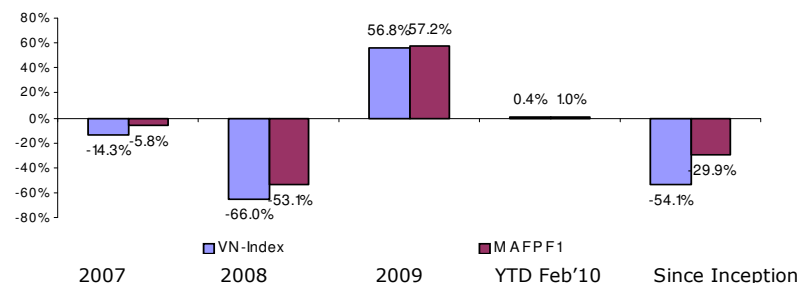
MAFPF1 was Vietnam's first foreign-managed pure equity fund to be structured as a local equity fund. This new and innovative fund structure for Vietnam allows foreign investors to access investments such as banks and key blue-chip companies, which would otherwise be restricted to local Vietnamese investors – thereby helping to open the Vietnam equity market to foreign investment. To do so, MVFM and MFC GIM's investment team had to create portfolio construction and investment research database seemingly from scratch, given that Vietnam's sell side industry is still in its infancy.

In addition, MFC GIM introduced groundbreaking risk management innovations including rigorous compliance systems, broker approval systems and self-imposed asset mix weightings. With improved investment capabilities and customer services has earned MVFM the Most Innovative Product in Vietnam award for 2008 from Asia Asset Management.

Ticker symbol	MAFPF1
Fund Structure	Public Closed-end fund
Term	7 years
Style	Core
Inception Date	October 2007
Currency	VND
Initial Fund Size (VND Bil.)	VND214 (~US\$13 million)
Benchmark	VN-Index
Listing	Ho Chi Minh city Stock Exchange (HOSE)
Fund Manager	Manulife Vietnam Fund Management Company (MVFM)
Management Fee	2% NAV per annum
Number of Holdings	15-35
Expected Tracking Error	2%-9%

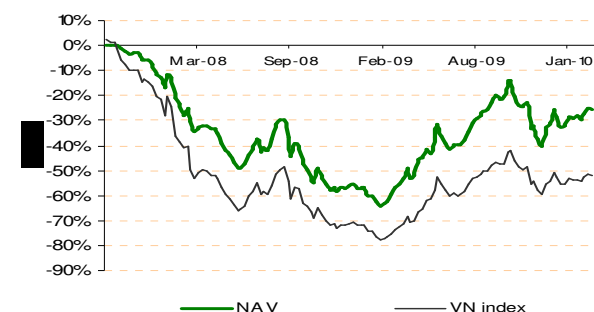
#### Investment performance

##### Calendar Year Returns (ending December 31)



(Source: MVFM, HOSE. Data as of 28 February 2010)

##### MAFPF1 NAV Performance vs Benchmark



(Source: MVFM, HOSE. Data as of 18 March 2010)

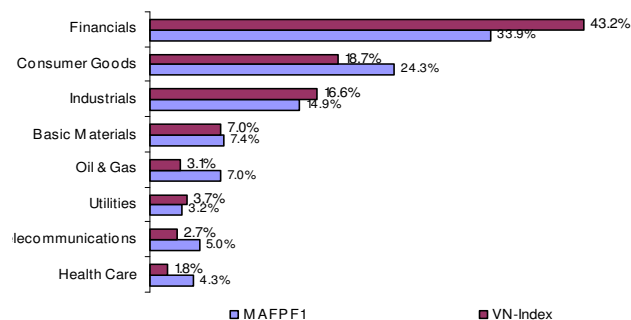
##### Annualized Returns

	2007	2008	2009	YTD Feb'10	Since Inception
VN-Index	-14.29%	-65.95%	56.76%	0.43%	-54.06%
MAFPF1	-5.81%	-53.14%	57.16%	1.01%	-29.93%
Value added	8.48%	12.82%	0.40%	0.58%	24.13%

**Note:** MAFPF1 was launched on 5 Oct 2007

(Source: MVFM, HOSE. Data as of 28 February 2010)

##### Sectors allocation



(Source: MVFM, Bloomberg)

## About Manulife Vietnam Fund Management Company Limited

Manulife Vietnam Fund Management Company Limited (MVFM) is an affiliate to the MFC Global Investment Management (MFC GIM). Our value and expertise that we provide our clients are based on the integration of three elements that form the foundation of our investment management process: Culture of managing risk, teams of talented investment managers and organizational strength.

MVFM was licensed by the Ho Chi Minh City Planning and Investment Department under Business Registration Certificate No. 4104000117 on June 10, 2005 and received the Fund Management License No. 04/UBCKGPHDQLQ from the State Securities Commission ('SSC') of Vietnam on June 14, 2005; Amendment License No.06/UBCK-GPHDQLQ dated 11 October 2007 and Decision No. 413/QĐ-UBCK dated 12 July 2007 by the SSC. MVFM is an independently managed fund management company, which reports to the SSC.

MVFM is fully staffed by licensed investment professionals and provides a full range of products and services commensurate with a top tier fund management company. Assets under Management as of December 31, 2009 amounted to US\$281 million equivalent. Additional information about Manulife Vietnam Fund Management Company Limited may be found at [www.manulifefunds.com.vn](http://www.manulifefunds.com.vn)

## About MFC Global Investment Management

MFC Global Investment Management® is the asset management division of Manulife Financial. MFC Global Investment Management's diversified group of companies provides comprehensive asset management solutions for institutional investors, investment funds and individuals in key markets around the world. This investment expertise extends across a full range of asset classes including equity, fixed income and alternative investments such as oil and gas, real estate, timber, farmland, as well as asset allocation strategies.

MFC Global Investment Management has investment offices in Canada, China, Hong Kong, Indonesia, Japan, Malaysia, Philippines, Singapore, Taiwan, Thailand, United Kingdom, United States and Vietnam. With more than 300 investment professionals, including 80 in Asia alone, MFC Global Investment Management offers worldwide expertise combined with local, on-the-ground knowledge and backed by a strong risk management framework. Additional information about MFC Global Investment Management may be found at [www.mfcglobal.com](http://www.mfcglobal.com)

## For more information, please contact:

### Mr. Dang Vi Thanh

Sr. Assistant Manager, Sales & Marketing, Manulife Vietnam Fund Management Company Limited.  
Tel: (84) 8 5416 6777 Fax: (84) 8 5416 0761 Email: [thanh\\_dang@manulife.com](mailto:thanh_dang@manulife.com)

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