

VIETNAM INTELLIGENCE

Welcome to the *Vietnam Intelligence – May 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”).

Equity market Outlook

By Mark Canizares, Head of Equities

The month of May proved to be a tough one for the VN market as the benchmark index fell by 7.59% (4/30-5/31). However, it outperformed the MSCI Asia Ex-Japan Index (MXAPJ), which declined about 9% in the same period. We believe that although regional concerns affected share price performance in the local bourse for the quarter, much of the declines have been a result of the market continuing its search for positive leads to push shares back higher. Year to May 31, the VN Index is flat (USD terms) while the broader MXAPJ is down 8.71%.

As with the month of April, the benchmark oscillated between 500-550 points, with a dip below the 500-point level in the second half of May. The market looks to be locked in the same consolidation range from a technical standpoint, in our view. Although still healthy, average daily transactions have slowed to about USD80 Million per day, about 80% of the April 2010 figure.

The macroeconomic picture appears to be stable, with the government likely to meet the targets that it has set for the year. However, a key indicator to watch out for is whether the economy will power on ahead in the second quarter given that the second half is a seasonally stronger period for the Vietnamese economy. Given the lack of interest in the equity markets on the local front, we believe positive surprises in key macroeconomic figures will play a role in reigniting interest in the market.

A likely focus in addition to the GDP numbers would be the country's interest rates. With rates perceived to rise or at least to remain at these levels for the year, this is also sapping interest for equities. High borrowing costs have the ability to dent corporates' incomes. Furthermore, with more than 40% of the market capitalization of the VN Index concentrated in financials, an increase in borrowing rates will hit the three main subsectors: (1) banks in the form of tighter spreads, (2) residential property companies via reduced consumer demand, and finally (3) brokers with reduced commissions resulting from slower stock market turnover.

A key focus for the third quarter is likely to be the banking sector. The State Bank recently came up with regulations designed to improve the Vietnam banking system. Banks with less than USD150 Million in capital are required to raise their capitalization levels by the end of this year. Capital adequacy requirements have also been raised to 9% from 8%, further putting pressure on inadequately capitalized banks to shape up. We believe though that the impact would be positive for listed joint stock commercial banks, given that they fulfill the new requirements. A consolidation in the banking system, if it happens, would most likely benefit the big players and help the sector improve in terms of its profitability. Note that the listed players have lagged the key benchmark by at least 10 percentage points this year, as investors stayed away from the sector given the uncertainty its outlook.

Fixed Income Market Outlook

Putu Yudhana, Fixed Interest Manager

The major factor influencing Vietnam bond market in April has been the increased liquidity in the local banking sector. In the beginning of April, the government decided to remove the caps for deposit rates and short term lending rates, which has eased liquidity situation. With the real lending rate now increasing, there are more balanced demand and supply for funds, and banks now have some extra funds to be invested, which led to higher demand for bonds, especially for short term series. The interbank rates have been declining in the past couple of months, with the table below shows the monthly movement in April 2010. In the following months, we still expect this trend to continue as the government focus is still to lower the effective lending rates in order to boost growth.

MONTHLY MOVEMENT OF INTEREST RATES (%p.a)			
Tenor	Mar-10	Apr-10	Change (%)
ON	7.38	7.02	(0.36)
1-week	7.88	7.33	(0.55)
2-week	9.02	8.06	(0.96)
1-month	10.06	9.21	(0.84)
2-month	10.69	9.99	(0.69)
3-month	10.87	10.36	(0.51)
6-month	11.11	10.90	(0.22)
9-month	11.20	11.05	(0.15)
1-year	11.28	11.16	(0.12)

(Source: Bloomberg)

The situation has enabled the government to lower the offering yields. The State Treasury has issued short term bonds with yields lower than March 2010 level. The trend continued throughout the first half of May, and we expect it remains the near future. In the longer term, however, demands from banks are expected to increase more slowly, while on the other hand, the government still has to issue a bigger amount of bonds compared to last year, in order to meet

its target for 2010. Therefore, we expect yields to start increasing again by the third quarter. In the long term sector, the government decided to issue 10 year bond at 11.5%. The level was considered very attractive, also resulting in high demand from the market. Some offering sessions on this tenor were still done as of mid-May 2010. We expect the yield to be more stable, with a slight tendency to decrease due to high demand especially from insurance companies.

Meanwhile, the concern over inflation slightly eased, which also supports the bullish trend in the bond market. The inflation numbers are lower for April at 9.23% y-o-y and 0.14% m-o-m, compared to 9.46% y-o-y and 0.75% m-o-m in March 2010. The expectations for 2010 is still between 9-10% as the government is still focusing on stimulating economic growth, which may lead to upside risk of inflation.

On the currency side, the VND tended to be more stable and we did not see any gaps between the official rate and market expectations. This is expected to continue in the near term due to cyclical factor. In the long term, however, widening trade deficits are expected to continue putting pressures to the local currency.

FUND UPDATES

MANULIFE PROGRESSIVE FUND (MAFPF1)

Introduction

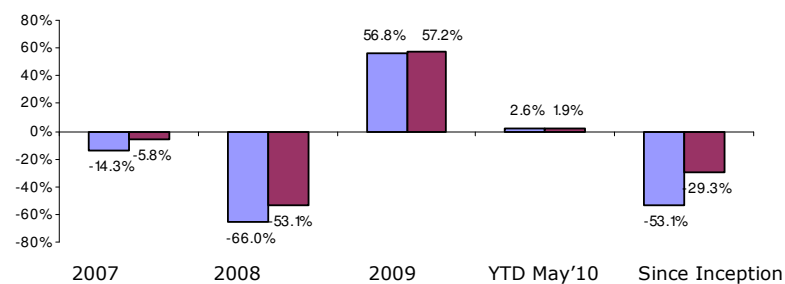
MAFPF1 was Vietnam's first foreign-managed pure equity fund to be structured as a local equity fund. This new and innovative fund structure for Vietnam allows foreign investors to access investments such as banks and key blue-chip companies, which would otherwise be restricted to local Vietnamese investors – 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 31 May 2010)

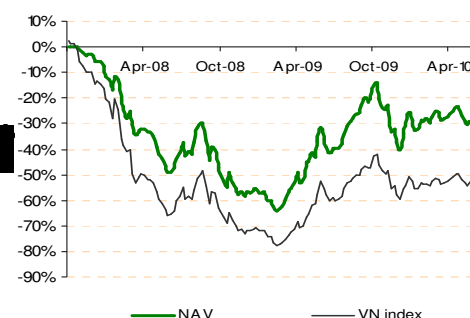
Annualized Returns

	2007	2008	2009	YTD May '10	Since Inception
VN-Index	-14.29%	-65.95%	56.76%	2.56%	-53.09%
MAFPF1	-5.81%	-53.14%	57.16%	1.95%	-29.28%
Value added	8.48%	12.82%	0.40%	-0.61%	23.81%

Note: MAFP1 was launched on 5 Oct 2007

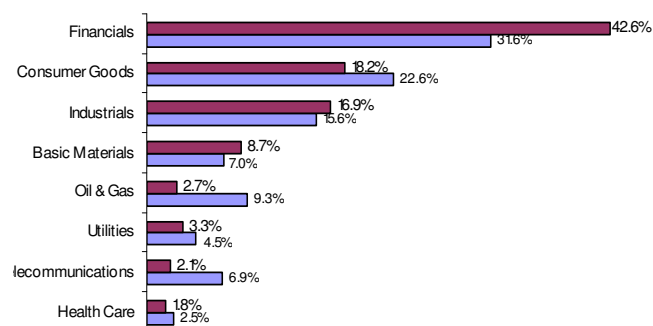
(Source: MVFM, HOSE. Data as of 31 May 2010)

MAFPF1 NAV Performance vs Benchmark



(Source: MVFM, HOSE. Data as of 17 June 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

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

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