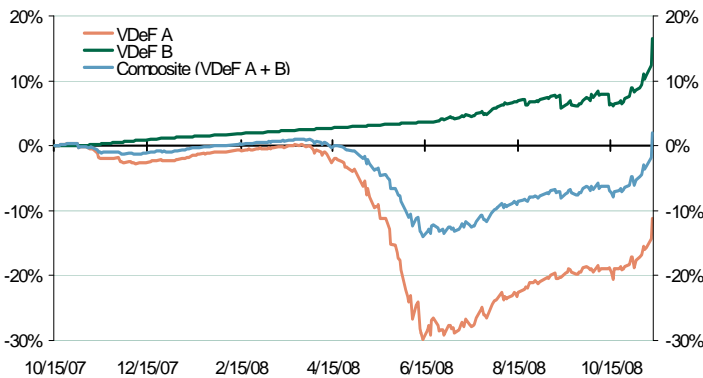
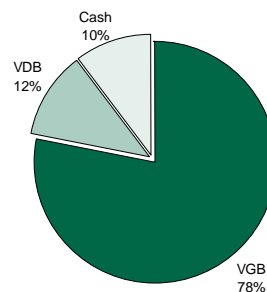
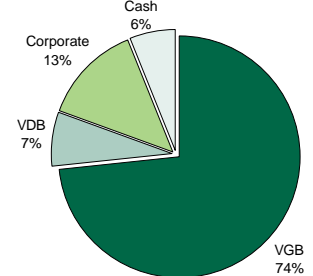


FUND PERFORMANCE

The November 10 auction added momentum to the bond rally, with 2 and 3 year VGBs at 11.5% and 11.9% respectively, recording a net decline of 300bps, over the past 30 days. Both share classes reached full investment in June, with easy pickings from the prior month foreign bond sell-offs. Following a mark-to-market hit from the May collapse in yields, the A shares are recovering, +1.75% over the month. Focusing on sub-sovereign and corporate, the B shares are +2.1%. Although the fall in yields has been on the swift side, which normally would call for at least a temporary correction, there is still plenty of liquidity out there with few natural sellers. In addition, with inflation expected to reach single digits in 2H09, the long term target for yields is <9%. So for now, we sit tight and watch for temporary corrections.

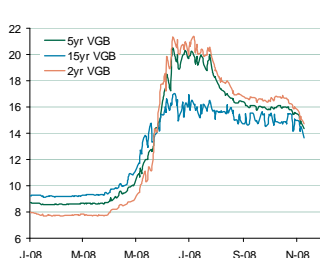
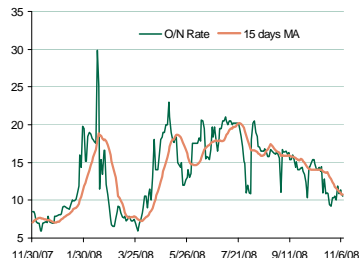
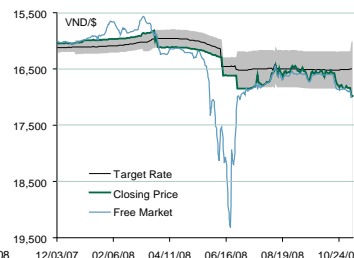
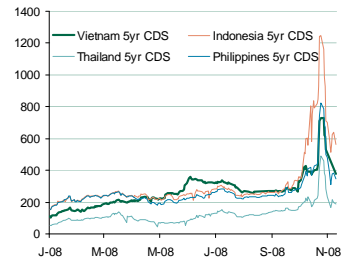
	NAV* 31-Oct-08	NAV/share* 31-Oct-08	VND Return (%)			US\$ Return (%)		
			Monthly*	YTD	Inception	Monthly*	YTD	Inception
VDEF-A	US\$9,848,909	US\$809.59	1.73	-15.5	-17.5	0.03	-19.36	-19.92
VDEF-B	US\$12,073,588	US\$1,040.32	2.07	7.29	8.59	0.37	1.69	3.74


A-SHARE

B-SHARE


*Designates audited NAV, other figures are DC calculations off current VBF quoted on Bloomberg

MARKET OVERVIEW

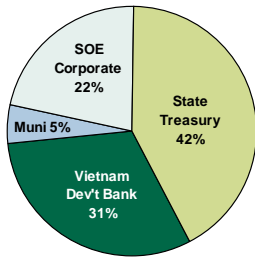
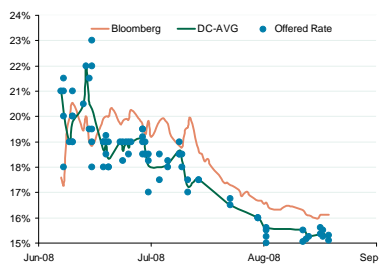
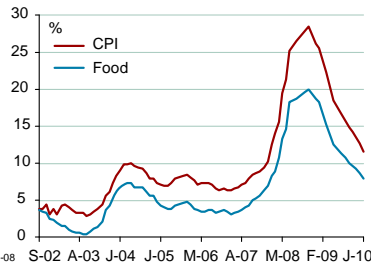
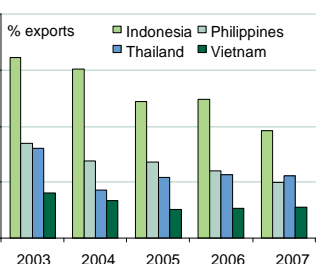
October's CPI (-0.18% mom) gave SBV the opportunity to defrost credit markets. The reference rate has been cut, interest payments on reserves increased to 10%, and early redemption of the VND 20.3tn compulsory bond, permitted. Three month deposit rates are down 300bps to 14%, and shorter durations are pushing single digits. As a result, O/N rates are down 400bps to 10%. With foreigners cutting EM exposure marked by US\$1.2bn of net selling since September, offshore held stocks of VND denominated bonds are now under US\$1bn. With liquidity motivating the current bond rally, the domestic banks are more than compensating, meaning the entire offshore book could be absorbed outright from the compulsory bond redemption alone. VGBs at 14-15% were highly coveted, given the 1m repo market trading near 13%; a straight positive carry without yields falling (as they have). Yields under 11%, raise valuation questions, although some recent foreign buying could push rates further. The off-shore derivative markets (which locals are excluded from) saw the CDS rocket +300bps to 800, since collapsing back to 375, hinting further offshore interest. But the domestics are cruising past sovereigns towards higher yielding corporate debt, where credit spreads are contracting (EVN closing in on 200bps, Agribank 300bps over VGBs). Until credit growth recovers, SBV can be expected to keep the reigns loose, with macro-policy refining part of the process; notably the recent widening of the FX trading band to ±3%. Increased VND/US\$ flexibility should go towards settling interest rate turbulence; however liquidity management should be expected to remain choppy. For now monetary policy will feed into lower yields, but a limit is approaching.

VGB YIELDS

O/N RATE

CURRENCY

CDS


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BOND MARKET OVERVIEW

The market is small at US\$13bn but 4x 2005 levels. It is highly fragmented, with approximately 600 issues, mostly sovereign or quasi-sovereign, average sizes of US\$20m and daily trading of US\$35m. Corporate issuers are mostly unrated SOEs. A yield curve is just starting to develop. Offshore access to the market is available, but dealing is problematic. Pricing is opaque, dispersed, and screen quotes are unreliable. Fair prices are only obtained by calling around the market. For now, attention is focused on sovereigns, concentrated in sub-5yrs with substantial near-term re-issuance requirements. But exciting opportunities will emerge in quasi-sovereign, municipal, provincial and corporate bonds, where information is most scarce and financial needs, greatest.

MKT BREAKDOWN

BBG VS ACTUAL

CPI TREND

DEBT SERVICE RATIO

INVESTMENT STRATEGY

VDeF is a Cayman registered, segregated portfolio company, with two legally separate share classes; A and B. Investors may invest in either, or both classes, with each class differentiated by levels of risk:

A shares: Lower risk, with a minimum weighting of 60% sovereigns, and up to 40% in Vietnam Development Bank, municipal, provincial and SOE corporate bonds. Target returns: 9-10% pa (net of fees).

B shares: Higher risk, with up to 100% in municipal, provincial and SOE/private corporate bonds, as these become available. Can hold up to 100% in sovereigns, and invest in private placements, loans and deposits. Target returns: 12-13% pa (net of fees).

VDeF will have first mover advantages in Vietnam's nascent market, from our unique market perspective, strong dealing capability and high-quality research (to overcome lack of ratings and anticipate major market shifts). In the absence of agencies, we are developing a system of credit ratings based on financial and fiscal fundamentals and intangibles, e.g. governance. The Fund will target tenures in line with a scenario that sees inflation and interest rates declining from late 2008.

INVESTMENT MANAGER

Dragon Capital (DC) seeded VDeF with US\$20m and its Debt Team has been in place for two years. DC is an experienced foreign portfolio investor in Vietnam's capital markets. Established in 1994, it has pioneered numerous investment forms and has an outstanding dialogue at every level of business and government. In 2003, its JV subsidiary became the country's first domestic asset manager. AUM are in excess of US\$1.5bn across equity, debt, resources and property. We employ over 100 staff at offices in Ho Chi Minh, Hanoi, and the UK. DC's shareholders comprise the International Finance Corporation, Proparco, and management.

VDeF is managed by Dan Svensson, a Fulbright Scholar who holds various graduate degrees in finance, including an MBA from UC Berkeley. Before joining DC in 2007, he held positions in the Swedish Debt Office, the European Bank for Reconstruction and Development and Handelsbanken. He was closely engaged in debt management, financial policies, derivatives structuring and Basel II compliance. Dan's team consists of a PhD economist, an MBA holder and two graduates in actuarial science. He is supported by DC's equity research team which oversees the industry's biggest macro and corporate database and fields 12 sectoral analysts, plus its own MA economist, a Johns Hopkins-trained American. Investment decisions will be made by a committee of eight DC professionals with skill sets in fixed-income, economics, company research, credit assessment and public policy.

INVESTMENT MANAGER

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SHARE DEALING

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alexpasikowski@dragoncapital.com

FUND STRUCTURE

Quarterly subscription with one month's notice
Quarterly redemption subject to company discretion
5% liquidity gate
A shares - sovereign and quasi-sovereign debt
B shares - corporate and other debt

PERFORMANCE FEES

A shares: 0.8% +10% with 10% hurdle
B shares: 1.2% +10% with 12% hurdle