



SPECIAL REPORT FROM VIETNAM

ASIA INTELLIGENCE

SPECIAL REPORT FROM VIETNAM

Manulife Vietnam Fund Management Company's Chief Investment Officer, Sebastian Subba, reports from Ho Chi Minh City on what foreign investors should know about investing in Vietnam.

Despite the challenging global economic environment and some domestic headwinds, Vietnam continues to strive to take its place among the world's leading emerging markets.

Population

One of the reasons Vietnam is attractive to investors is because of its young, low-cost and educated workforce. Vietnam benefits from having a population with a median age of 26.4 years as at 2008 - younger than China's and Thailand's. As Vietnam's 10-19 year old age bracket enter the workforce over the next 10 years it will create an additional catalyst for the country's economic development. The total labor force is over 45 million and increasingly educated with more than a 90% literacy rate – representing a formidable support to labor-intensive manufacturing and domestic consumption.

This is particularly beneficial to Vietnam's economy as a desire for risk diversification and China's move up the manufacturing value chain mean that international businesses are increasingly looking for a second manufacturing

and industrial production base. While labor costs and the minimum wage in Vietnam are undoubtedly rising, they remain cheaper than neighboring ASEAN countries.

However, Vietnam still struggles to develop and keep talent at a management level, an issue for the country's corporates and one that the government is trying to address.

Government

Vietnam's socialist government has brought about political stability in the country, with an orderly rotation of leaders, smooth successions and sustained government bias towards economic and regulatory reform. This is good news for investors as Vietnam rapidly transitions from a centrally planned to a market-oriented system that is increasingly integrating with the global economy.

The government focus on economic liberalization has been much in evidence over the last two years as the authorities have significantly eased fiscal and monetary policies and announced a broad economic and fiscal stimulus plan aimed at supporting growth and ensuring social stability. These measures include development projects in Ho Chi Minh City, a subsidy for loan interest expenses aimed at small and medium sized enterprises, a reduction in value added tax (VAT) to stimulate private consumption and a reduction in some export tariffs.

It's worth noting, however, that the government failed to auction the full amount of Treasury bonds during the first half of 2009 and this may

ASIA_VIET.INTEL.WEB.082709.MW

constrain their ability to implement its full fiscal stimulus package.

Whilst corruption remains a concern for investors in Vietnam, the government has been taking positive measures and we have seen several recent high profile cases of officials being arrested and tried.

Economic environment

Despite the deteriorating global economic conditions, we believe Vietnam remains an attractive market for foreign direct investment (FDI), in fact, the United Nations Conference on Trade and Development (UNCTAD) ranks Vietnam as the 6th most attractive destination for FDI globally, for the 2007-2009 period. Disbursed FDI is the highest in the Asia region relative to GDP size, accounting for an average of 7% of GDP per year in recent years and accelerating to 12.8% of GDP in 2008.

There are concerns however that the global downturn may reduce Vietnam's export earnings, private remittances and FDI flows. This is likely to impact on domestic demand resulting in output falling below potential.

However, concerns about the impact on local growth are mitigated somewhat by the government's accommodative fiscal stance and the fast tracking of public investment projects such as the building of new roads and airports. The latter has been particularly welcomed by investors who feared for years that Vietnam's underdeveloped infrastructure would hamper economic and social development.

Private sector debt is small and manageable in Vietnam; there is no domestic hedge fund industry to unwind and the country has no known exposure to exotic derivatives that have troubled other, more developed, nations. The government remains prudent in external borrowing and

Vietnam's external debt position has historically been robust. Most of its debt is concessional, carrying a low average fixed rate and long maturity repayment schedules.

Capital markets

Vietnam's capital markets are undoubtedly developing fast with trading volumes in the Vietnam index having increased significantly from USD 50 million in January 2008 to USD 100- 150 million in August 2009. However, liquidity is low by regional comparison and, although this is improving thanks to greater foreign institutional buying, it continues to be a cause for investor anxiety.

The government's plan to jump start the equitization of state-owned enterprises (SOEs) will boost the market capitalization of Vietnam's equity market significantly and continue as a strong catalyst to re-rate the market. Equity market capitalization is currently 27% of GDP so it is starting at a much lower base than neighbouring markets and therefore, we believe offering significant upside potential.

Vietnam's fixed income market is also developing fast. In Q1 2009, Vietnam issued its first USD denominated bond for the domestic market with a maturity of up to 3 years and there are plans to issue longer dated bonds, up to 7 year tenors, adding options for investors.

Conclusion

Despite the challenging external environment and some domestic headwinds, we remain upbeat on Vietnam's investment prospects both locally and in terms of offshore fund raising opportunities. We believe Vietnam's long term outlook looks positive and its continued economic, political and market development provides favourable investment possibilities in the near-to mid-term.

ASIA_VIET.INTEL.WEB.082709.MW

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.

The opinions expressed are those of MFC Global Investment Management® ('MFC GIM') as of 20 August 2009, and are subject to change based on market and other conditions. The information in this document including statements concerning financial market trends, are based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. The information in this document may contain projections or other forward-looking statements regarding future events, targets management discipline or other expectations, and is only as current as the date indicated. There is no assurance that such events will occur, and may be significantly different than that shown here. MFC GIM disclaims any responsibility to update such information. All overviews and commentary are intended to be general in nature and for current interest. While helpful, these overviews are no substitute for professional tax, investment or legal advice. Clients should seek professional advice for their particular situation. Neither Manulife Financial, MFC Global Investment Management®, nor any of their affiliates or representatives is providing tax, investment or legal advice. Past performance does not guarantee future results. This material was prepared solely for informational purposes, does not constitute an offer or an invitation by or on behalf of MFC GIM to any person to buy or sell any security and is no indication of trading intent in any fund or account managed by MFC GIM.