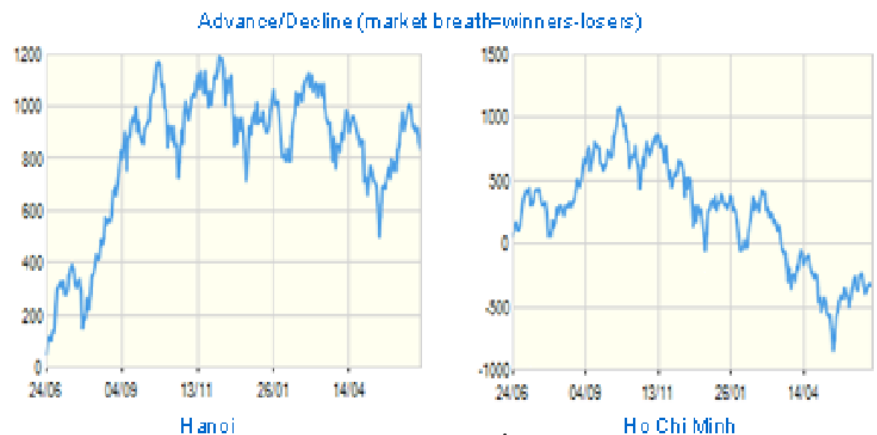




## AFC VIETNAM FUND UPDATE

<b>Fund Category</b>	Vietnam Public Equities
<b>Country Focus</b>	Vietnam
<b>Subscriptions</b>	Monthly at NAV (five days before month end)
<b>Redemptions</b>	Monthly at NAV 60 days notice
<b>Benchmark</b>	VN Index
<b>Fund Manager</b>	Andreas Karall
<b>Investment Manager</b>	Asia Frontier Capital (Vietnam) Ltd., Cayman Islands
<b>Investment Advisor</b>	Asia Frontier Investments Ltd., Hong Kong
<b>Fund Base Currency</b>	USD
<b>Minimum Investment</b>	USD 10,000
<b>Subsequent Investments</b>	USD 1,000
<b>Management Fee</b>	1.8% p.a. of NAV
<b>Performance Fee</b>	12.5% p.a. of AV appreciation with high watermark
<b>Fund Domicile</b>	Cayman Islands
<b>Launch Date</b>	23 December 2013
<b>Custodian Bank</b>	Viet Capital Securities, Ho Chi Minh City
<b>Auditor</b>	EY, Hong Kong
<b>Administrator</b>	Custom House, Singapore
<b>Legal Advisor</b>	Ogier, Hong Kong
<b>ISIN</b>	KYG0133A1673

The month of June was marked by a very weak market breadth. Only a handful of stocks were up, as buying interest was focused on very few sectors. These were mainly still banking stocks and a few heavy weighted index names. Due to the continuation of the bank stock rally until just before end of the month and the foreign buying interest in some of the index constituents, lead to a significant underperformance of small- and mid-caps in June. Ho Chi Minh City closed + 4.1% and Hanoi + 2.1% last month and according to our internal calculations the AFC Vietnam Fund NAV rose +0.5% to approximately USD 1,400.



Source: Stockbiz.com

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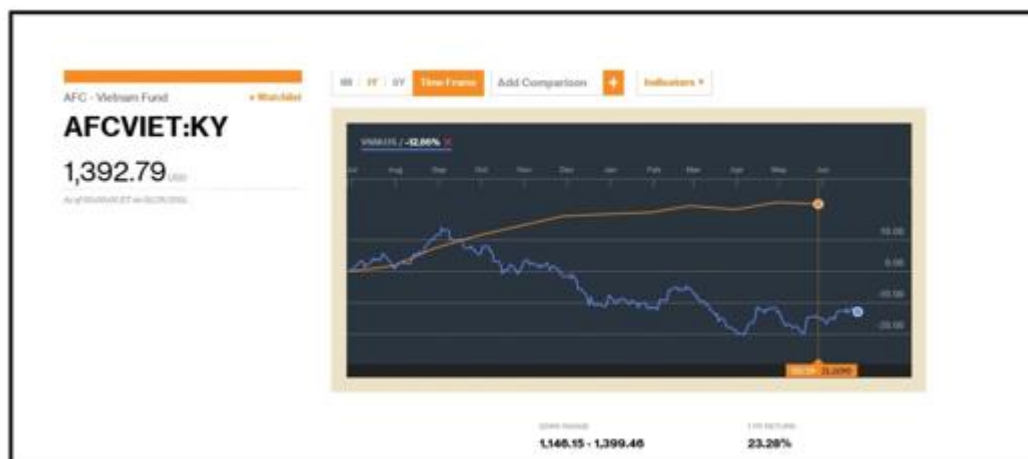


The two charts show the currently very weak picture of the majority of shares. In many stocks local buyers are simply not there and hence small sell orders are pushing prices down. As shown in the past, the market breadth in the long run is always correlated with the economic growth and we therefore expect the stock market to catch up strongly, and hence the return of local investors with a market share of 80-90% of the volume. A very positive news was the release of the first half 2015 GDP figures which rose to 6.28%, far above the estimates and the highest increase since 2009!

The market breadth is also a very adequate tool for an active manager to generate alpha (the outperformance of the market - and the traditional market participants). This was particularly the case end of June until the end of autumn 2014, where we were able to achieve such an outperformance. The following chart, which compares our fund with the much larger and better-known Market Vector Vietnam ETF, demonstrates this clearly:



## AFC VIETNAM FUND UPDATE



*Source: Bloomberg*

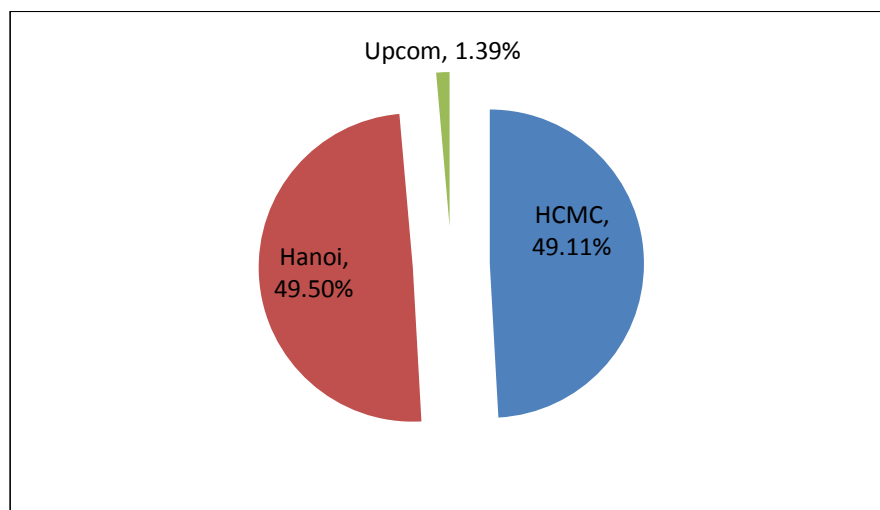
The number of undervalued mid- and large-caps in our portfolio is steadily increasing, driven by our growing assets under management and the lengthy sideways movement of the overall market. Of course, the main focus will continue to be on fundamental valuations, but the rebalancing of our portfolio is important and ongoing process in order to adjust to changing market conditions quickly. While our portfolio consists of a number of stocks which are due to their size not relevant to the index, other funds have heavily overweighted some individual companies due to their size and importance and they are now considered strategic positions for the lack of alternatives. So far we have seen that stocks with a fully-utilized foreign ownership limit (FOL) do not necessarily perform better than the rest of the market. Just a few days ago the government finally announced a relaxation of these foreign ownership limits. Although this will be of great importance and very positive for the stock market, we still need to see if this is really the long awaited and much quoted "game changer". So far we only saw a positive impact on a few stocks, where it is clearly foreseeable that foreigners will increase their stake immediately after this new regulation will be implemented.

A fundmanager of a leading asset management firm regards this step (relaxation of FOL) as very timely, since undoubtedly large foreign investors are interested to enter this market for months, but have been prevented from doing so due to this legislation. He thinks that the Vietnamese stock market may soon be seen on par with markets such as Thailand (USD 420 billion market capitalization) and Indonesia (USD 345 billion) compared to USD 57 billion in Vietnam. The future will show whether this upcoming country will soon see a reclassification from a frontier market to an emerging market.

It is also interesting to mention, that with the current turmoil around "GREXIT", the Vietnamese stock market hasn't reacted to it. Once again it clearly shows that Vietnam has a very low correlation to world markets such as the Dow Jones, DAX or SMI.

Our well diversified portfolio with a P/E of only 7.3x and hence a discount of more than 50% to the regional and international averages, shows us that we are well positioned. We are now expecting that new money inflow will not only be invested in blue chips, but also eventually in medium-sized and smaller companies with a substantial fundamental safety cushion. This "safety margin" as called by the oracle of Omaha, Warren Buffett, is in the long run the most powerful argument for a market to outperform. We are therefore very happy with our current portfolio, even if in the short term some large caps will be positively impacted by the new foreign ownership limits.

## AFC VIETNAM FUND UPDATE



Source: SSI Securities

Our investments are also roughly equally split between the two main stock exchanges. But in terms of total market cap, HCMC represents around 85%, where as in the much smaller Hanoi there are still many undiscovered small companies listed. In contrast to when we launched the fund 18 months ago, we now see brokers increasingly following small- and mid-caps. As seen recently when a renowned broker released a market report with stock recommendations for the second half of the year. We were very surprised to notice that around 50% of their recommendations were shares which we are already holding in our portfolio.

The subscription deadline for this month will be on the 27<sup>th</sup> July, if you would like any assistance with the investment process please be in touch with myself or Andreas Vogelsanger.

Best regards

Andreas Karall, CIO

*\*The representative of the Fund in Switzerland is Hugo Fund Services SA, 6 Cours de Rive, 1204 Geneva. The distribution of Shares in Switzerland must exclusively be made to qualified investors. The place of performance and jurisdiction for Shares in the Fund distributed in Switzerland are at the registered office of the Representative.*

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