



AFC VIETNAM FUND UPDATE

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

Contact Information

Asia Frontier Capital Ltd.
www.asiafrontiercapital.com

Mr. Andreas Vogelsanger, CEO
Asia Frontier Capital (Vietnam) Ltd.
Tel: +66 84435 7472, Fax: +852 3904 1017
vietnam@asiafrontiercapital.com

Registered Office:
c/o Elian Fiduciary Services (Cayman) Limited,
89 Nexus Way, Camana Bay, Grand Cayman,
KY1-9007, Cayman Islands

Hong Kong Office:
Asia Frontier Investments Limited
1208, 12th Floor, Loon Kee Building
267-275 Des Voeux Road Central
Hong Kong



The past few weeks were very eventful indeed, especially on the international political and financial arenas. The recent developments regarding Vietnamese stock markets can be described as positive, frustrating and enlightening.

Positive: The decision to raise foreign ownership limits, was broadly welcomed by international investors, even though more clarity is needed to better understand various imitations for different sectors. For example for banks the 30% limit (10% for a single investor) will remain unchanged and companies operating partly in other strategically important industries will probably also not be able to raise their limits to the full 100% (there are 267 conditional sectors in the investment law like telecom, defense, etc.). Brokers and insurance companies however will be allowed to increase their limits to 100% and were therefore among the winners over the last few weeks. But why exactly banks increased by approximately 50% in recent weeks remains beyond my comprehension. They are now trading at a price / book ratio of around 2 with a high price / earnings ratio in regional comparison, and are definitely not cheap, even in an international context. With a high total weighting of the financial sector of over 35%, particularly banks, the main index has become a play ball of a single sector with intraday fluctuations of 10% and more. We however find "value" in other sectors and have to resign to the fact that this is reality for the time being.

Sector	Market cap. (USD bn)	Performance 2015
Financials	26,2	+34,6%
Consumer	12,0	+11,5%
Utilities	6,5	- 8,8%
Industrials	2,9	+ 9,7%
Materials	2,9	- 6,7%
Energy	1,1	-10,6%
Information Technology	0,9	+15,0%
Health Care	0,6	-15,0%
VN-Index	53,0	+15,0%
Small-Cap-Index		- 1,8%

Source: VietCapital Securities

Frustrating: The extremely different price development of certain stocks or sectors in comparison to the vast majority of shares, is due to the fact that 90% of the market is still dominated by domestic retail investors, which are currently still not ready to become more involved. The 2 charts below show how different the price movements of the "Big Caps" and the "Small Caps" are, since the beginning of this year:



AFC VIETNAM FUND UPDATE



Source: VietCapital Securities

Since we are long-term investors and since the outperformance of smaller stocks happens always in waves as we have seen over the past few years, we see no reason to change the structure of our attractively valued portfolio, with the exception of course should earnings prospects change to the worse in any of our invested companies. The reporting season for the first half of the year is just beginning and we are curious to see how the improving economy will feed through to the domestic companies. In the long run, this will probably be the most important factor to define the extent of the upside potential of Vietnam. The above described development has led to strongly opposing developments in the short term. While the Ho Chi Minh City and the Hanoi index increased by 6% and 2.5% respectively, we had to resign to the fact that our AFC Vietnam Fund declined by 0.4% to approximately USD 1'388, according to our internal calculations.

Enlightening: Greece? Stock market boom and crash in China? Vietnam didn't really react to these themes, neither was it a topic of discussion. Once again Vietnam is proving its low correlation to other markets, driven by local investors. At what point however they drive the broad market back up is uncertain, but the example of Chinese speculators shows very clearly that our expectation is not unrealistic, experiencing these kind of price exaggerations in Vietnam too, over the years to come. Retail investors in Vietnam - as almost everywhere in the world - do not take investment decisions on the basis of an international debate about a free trade agreement, such as TPP or an upward revision in GDP growth of 0.2%. Sometimes it's company specific news which triggers their buying interest, but mostly rumors and simple greed for profits - especially if a friend, colleague or neighbor brags about the stock market profits they made.

We are not sure when neighbors will brag about their profits - but we are convinced that it will happen!

The subscription deadline for this month will be on the 27th 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.*

DISCLAIMER

Investments in equities in Vietnam are subject to market risk, idiosyncratic risk, liquidity risk, and currency exchange rate risk. The fund may use financial derivative instruments as a part of the investment process. This document does not constitute an offer to sell, or a solicitation of an offer to buy shares in AFC Vietnam Fund. We will not make such offer or solicitation prior to the delivery of an offering memorandum, the operating agreement or articles of association, a subscription booklet, and other materials relating to the matters herein. Before making an investment decision, we advise potential investors to read these materials carefully and to consult with their tax, legal, and financial advisors. The materials have not been reviewed by the regulatory authority of any jurisdiction. Investment is open only to accredited investors as defined by the relevant legal jurisdiction of residence and/or nationality. We have compiled this information from sources we believe to be reliable, but we cannot guarantee its accuracy. We present our opinions without warranty. Past performance is no guarantee of future results. © 2013 Asia Frontier Capital Limited. All rights reserved.