

AFC VIETNAM FUND UPDATE

Fund Category	Vietnam Public Equities
Country Focus	Vietnam
Subscriptions	Monthly at NAV (five business days before month end)
Redemptions	Monthly at NAV 60 days notice
Benchmark	VN Index
Fund Manager	Vicente Nguyen
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	Ernst & Young, Hong Kong
Administrator	Custom House, Singapore
Legal Advisor	Ogier, Hong Kong
ISIN	KYG0133A1673

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In the first half of June stocks continued to move up. Financial stocks in particular were strong and both indices, HCMC and Hanoi gained 3.1% and 4.1% respectively. Mid- and small-cap stocks were lagging in this rally, therefore our NAV increased by +1.3% to USD 1,811, according to internal calculations.

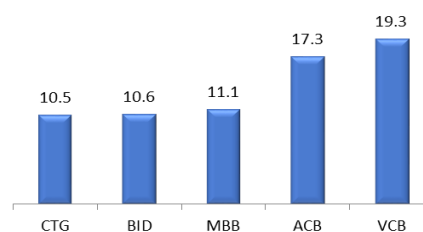
Market developments

Strong inflows into Vietnam continued over the past few weeks. So far, more than USD 300 million of foreign new money was invested in Vietnamese stocks this year. Without any external shock, we are convinced that this trend will continue for the next years, as more people notice the potential of this country. Of course, also we at AFC strongly believe in the Vietnam story and hence our combined holding in the AFC Vietnam Fund is currently around 8% of total assets, close to USD 3 million.

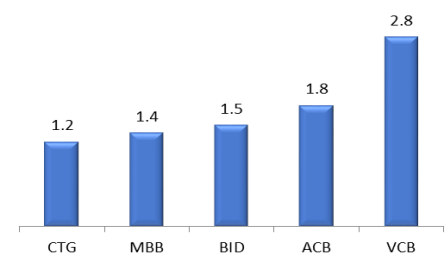
The finance sector was again the leading force, driving the market higher. Banks are still strong and were pushed up by local investors. Given that most banks of quality have already maxed out their foreign ownership limits for years, and hence most foreigners are having a hard time tracking the index, save for a few "old" investors, who have been around for many years, during times when they were still able to accumulate those stocks.

On both stock exchanges, Ho Chi Minh City and Hanoi, banking shares account for roughly 20% of the index, and if one includes brokerage and insurance companies, then the weighting is around 23% (HCMC) and 33% (Hanoi). But even if we were able to buy banking stocks, in order to have similar moves to the index, we would have to restructure our portfolio from a very broadly diversified portfolio into a highly concentrated one, similar to many of our competitors. As our track record shows, we were able to perform without the volatility associated with these very volatile and rumor driven banking stocks and strongly believe that in the financial services sector there is much better value in small and mid-cap brokerage and insurance stocks. As an example, the highest weighted single banking stock on each exchange (8% in HCMC and 15% in Hanoi) is trading on average at 18x earnings and more than 2x book value, which can hardly be seen as a bargain. This compares with an average banking stock valuation in the developed Asia Ex-Japan, of 10.3x earnings and 0.9 book value.

Price/Earnings Ratio



Price/Book Ratio



Vietnam Banking Stock Valuation; Source: AFC, Viet Capital Securities



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Currently the largest position in our fund is an insurance company with a strong network throughout Vietnam. The growth rate in the retail insurance sector is expected to be strong for years to come. This company managed to double revenues in the past three years and net profit grew by almost 400% over the same period. In the first quarter of 2017 revenues and net profit were up again by 35% and more than 100% respectively. Despite this growth rate the stock is still trading on only 7-8x earnings, based on our estimates for 2017, despite the share price having risen more than 200% over the past two years. The most likely reason for this extremely cheap valuation is that the stock is trading on the UPCOM, and hence is still not on the radar of most domestic and foreign investors, something we anticipate changing in time.

So, while others are trying to chase the index more or less successfully, we simply keep on looking for new investment opportunities as they arise. With this approach and an expected acceleration in revaluations of inexpensive stocks, we strongly believe that we will be able to replicate our past performance in the future.

And once again, as we have written about speculative retail investors many times before, the gambling mentality is pushing selected stock prices up, as seen in the chart below of a small banking stock, with an uneventful outlook, but exploding on the upside and doubling its market cap in only two weeks! Of course, this behavior is not only a Vietnamese phenomenon.



National Citizen Commercial Bank Sept. 2010 - June 2017; Source: Viet Capital Securities

7-Eleven Vietnam just opened in Vietnam with their first 160sqm store on the ground floor of a CBD tower. The brand is owned by the same group that owns McDonalds in Vietnam. 7-Eleven in Vietnam is positioning itself as a fast food store, with a much wider and better-quality product selection than either Circle K or Family Mart. They accomplish this with larger stores than their competitors, i.e. 150-200sqm. Management expects to expand very fast and in doing so one main challenge will be in finding suitable real estate. Vietnam becomes more and more attractive to foreign retailers with a young population of more than 90 million people (60% below 35 years old).

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Source: Viet Capital Securities

Vietnam has jumped five spots to sixth place in the 2017 Global Retail Development Index, as recently announced by the US management consulting firm A.T. Kearney. According to them, Vietnam is moving ahead and is emerging as an important market for retail expansion with its liberalized investment laws. The economy is growing rapidly and is shifting towards more privately-owned businesses and higher value export. With favorable governmental policies, urbanization, a growing middle class, and a relatively young population, foreign retailers have good reason to be positive about the country. According to A.T. Kearney, convenience stores and mini-marts are the fastest-growing segment. Circle K and Family Mart entered the market in 2009 and are expanding aggressively. Family Mart plans to have more than 800 franchised stores by 2020. 7-Eleven plans to open its first Vietnamese store this week as planned in a franchise agreement with Seven System Vietnam; a total of 1,000 stores are planned in the coming decade. According to Vietnam's statistic office, domestic retail consumption improved from 4.7% in 2011 to 7.8% in 2016.

Economy

Domestic Consumption: In the first five months of 2017 retail sales of goods and services rose 10.2% YoY, higher than the 9.1% growth in the same period last year. This was accompanied by stronger inflation in the first five months which lowered real retail sales growth to 7.4% YoY from 7.8% during the first five months of 2016.

Industrial Production: YTD, Vietnam's Industrial Index of Production (IIP) grew 5.7% YoY, less than 7.5% YoY in the same period last year. The sharp decline of the mining sector by 9.1% YoY was the main reason for industry's growth slowdown.

Trade: In YTD, Vietnam's trade deficit was USD2.5 billion, resulting from USD80 billion of exports and USD82.5 billion of imports. Both exports and imports surged by 18.4% YoY and 24.7% YoY, respectively. The Prime Minister's visit to the US and Japan in late May and early June should help support Vietnam's trade going forward.

FDI: YTD, disbursed FDI rose 6% YoY to USD6.2 billion, while total registered FDI rose 10.4% to USD12.1 billion. Registered and disbursed FDI are expected to accelerate faster in the coming months as the Government has required relevant Ministries to support and speed up the approval process for both local and foreign investment projects.

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Credit growth: Full-year credit growth is likely to reach 18% in 2017, given the current quickening pace of growth. Credit growth as of May 25 was 6.53% YTD, higher than 5% in the first five months of 2016 and 4.5% in the same period of 2015. Credit became more focused on the manufacturing and agricultural sectors, thus helping boost economic growth into the year-end. Interest rates remained quite stable since the beginning of the year with lending rates ranging from 6%-9% per annum for short-term loans and 9%-11% per annum for medium and long-term loans.

Subscription

The subscription deadline for this month will be the 26th June and if you would like any assistance with the investment process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

Estimated NAV as of 15th June 2017

NAV	USD 1,811*
Since Inception	+81.1%*
Inception Date	23/12/2013

Monthly Performances AFC Vietnam Fund

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2013	USD												+2.37%	+2.37%
2014	USD	+8.75%	+4.50%	+2.18%	-4.65%	-0.32%	+1.45%	+1.86%	+5.49%	+3.87%	+2.83%	+2.50%	+0.60%	+32.50%
2015	USD	+0.44%	+1.76%	-0.96%	+1.93%	-0.48%	+0.06%	+0.22%	-4.57%	+1.18%	+6.90%	-1.82%	+0.25%	+4.62%
2016	USD	-0.10%	+3.30%	+1.28%	+3.17%	+1.40%	+4.97%	+3.0%	+0.13%	+0.11%	-1.83%	+0.88%	-1.76%	+15.29%
2017	USD	+1.90%	+1.10%	+1.94%	+1.03%	+2.96%	+1.3%*							+10.7%*

*According to internal calculations

**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. The fund is authorized for distribution to professional investors in Hong Kong, Japan, Singapore and the UK. By accessing information contained herein, users are deemed to be representing and warranting that they are either a Hong Kong Professional Investor or are observing the applicable laws and regulations of their relevant jurisdictions.*

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