



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 NAV appreciation with high watermark
Fund Domicile	Cayman Islands
Launch Date	11 December 2013
Custodian Bank	Viet Capital Securities, Ho Chi Minh City
Auditor	KPMG, Cayman Islands
Administrator	Amicorp Fund Services Asia Pte Ltd., Singapore
Legal Advisor	Ogier, Hong Kong

Contact Information

Asia Frontier Capital Ltd.
www.asiafrontiercapital.com

Andreas Vogelsanger
CEO

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

Stephen Friel
Marketing Director
Asia Frontier Capital Ltd.
Tel: +852 3904 1015, Fax: +852 3904 1017
sf@asiafrontiercapital.com

Registered Office:
c/o Ogier 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

Both Vietnamese equity indices had low trading volumes but were up around 1% month to date. This demonstrates once again their low correlation to other larger markets, such as the USA and Germany which were recently very volatile. Most Asian markets were not impacted by the recent turmoil's in the Ukraine, Israel and Iraq and finally showed some relative strength in comparison to developed markets. We believe this could be the start of a longer lasting trend which would certainly work in our advantage.

There were some larger foreign investor outflows in the past weeks (around USD 40 million this month alone and almost USD 50 million in 2014 due to global political conflicts) but this was more than offset by domestic investors. Our investments with typically very little foreign ownerships are mastering these kind of situations relatively unhurt - in contrast to the correction we experienced this spring. FLC which has become part of the VN30 index and is also a very good proxy of many of our holdings, is a particularly good example of showing this pattern:



The current foreigner ownership of 1.8% is still extremely low and we expect numerous research reports of various brokers and hence more buy orders in the near future. As a small fund management company we hold around 20% of the total foreign ownership of a company that ranks place 17 out of the Vietnamese VN30 index and is likely to benefit with the expected merger of the two exchanges in about 1-2 years.

With the now ending reporting season for the second quarter we have almost finished our relatively modest rebalancing and we already see some positive developments in companies with good results. Meanwhile, we are approaching the previous NAV peak of March and are currently, based on internal calculations, at approximately USD 1,182.

15th August 2014



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During an interesting discussion a few days ago, I was asked why we believe that we should perform better than other funds in the future. As Warren Buffet recently said - the person tends to complicate simple things unnecessarily. In contrast to developed markets, which can look back at a 5 years stock market rally despite a weak recovery in economic growth, Vietnam comes straight from a multi-year economic crisis that was also reflected in the stock market. The valuations of the Ho Chi Minh and Hanoi index, with a price/earnings ratio of 13x - 14x is significantly cheaper than most other markets, despite good economic prospects for the coming years. With our portfolio of 70 shares which is even 50% cheaper than the broad market with a price/earnings ratio of around 6.8x, with all firms profitable and with mostly better results than the average of shares held by most other foreign investors, it is very likely that many of our companies should heavily outperform. The argument at the beginning of a market recovery that smaller stocks with lower liquidity should trade at a valuation discount to the market, no longer holds in times when the market is booming, as presently in the United States - the shares of the Russell 2000 index are now valued at an average of 39 times earnings, while the Dow Jones and the S&P500 are "only" trading at 17x. It is not unlikely that we could see a booming Vietnamese stock market in the coming years and I leave it up to you to guess what the performance opportunities in such a scenario could be...

The next subscription deadline for this month will be on August 25.

Best regards,

Andreas Karall, CIO

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