



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

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August was our second best month since the launch of the fund with a performance of 5.5%. With an estimated NAV of USD 1,232 we clearly exceeded our old high of March. Our initial investors will certainly enjoy the performance of 23% in only 8 months, but may also have some concerns that we could face a possible setback. As you surely remember, we have correctly predicted a correction (but not the reason) back in spring, but in contrast to those days, we now feel much more confident when we look forward to the upcoming months. Of course, there may be a consolidation in the short term, but the technical and economic conditions are much more favourable than they were six months ago.

We started late last year with a portfolio of about 50 stocks with an average price/earnings ratio of about 7x, while the overall market was valued at about 12x. Today - 8 months and +23% later - we have 70 shares and still the same favourable average P/E ratio of 7x, while the overall market is now trading at about 14x. With the half year earnings season behind us, we discovered a few new and promising companies that fit well within our existing portfolio.

What are the kind of risks we do have to take into account? Our investments are broadly diversified over a large number of smaller companies, all with good balance sheets and attractive valuations, which are in our opinion vastly undervalued with a potential to increase by 100% and more in the coming years. There is of course always the risk of negative (and positive) surprises, but with such a high number of positions this doesn't really represent a serious problem. We just experienced in the past month some great developments for our investments; such as for example the inclusion of FLC (a company we previously wrote about) in a few major indices, the analyst community finally started to discover some of our shares we are holding and as well an increasing number of local investor who seem to be interested in some of our investments. Regardless of the short-term movements in the stock market index, which was on some days strongly influenced by 1 single stock with a P/E ratio of about 18x and hence never would fit our investment criteria, our portfolio is as inexpensive as on the first day when we launched our fund.

With our quantitative and fundamental investment approach, we often can't rely on research reports, especially for smaller companies, and we therefore are calculating our own forecasts. After the completion of the half-year reporting season we can now draw a few very interesting conclusions. The first quarter results are typically not very meaningful to predict the full year and we increased our average forecast for annual sales in 2014 by 2.9% and earnings by 1.1%. These minimal changes in our estimates after three months shows us that the development of these companies, which received so far very little attention, can be quite accurately forecasted and that in the long term they probably will exploit their full potential. Currently the average 2014 earnings forecast for our portfolio is at + 13.2% in comparison to + 12.6% in 2013, and the arithmetic mean for the profit increase is even at +23%.

30th August 2014



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We can of course never exclude the possibilities of shorter consolidation periods, but we clearly think that a reversal of the positive trend for this year is not very likely.

Best regards

Andreas Karall, CIO

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