



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	Ernst & Young, Hong Kong
Administrator	Custom House, Singapore
Legal Advisor	Ogier, Hong Kong

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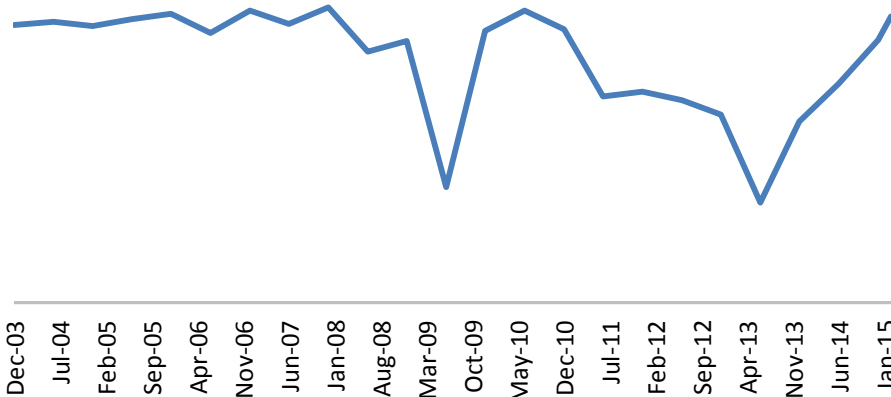
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The main event impacting the Vietnamese market last month was undoubtedly the Chinese New Year and Tết holidays which saw domestic trading halted for more than one week. This short trading month was characterized by very low stock market volumes. Overall we saw a continuation from January, where notably banking stocks and some individual companies were mainly responsible for the index movements. Compared to the end of January the AFC Vietnam Fund therefore saw again quite different movements against the indices. The Ho Chi Minh index performance was very strong to end the month up +2.9%, while the Hanoi index, which is more relevant to our fund, finished the month almost unchanged with a return of +0.2%. According to our internal calculations our fund NAV increased by +1.5% this month to reach approximately USD 1,382. This brings the net performance since inception on 23 December 2013 to +38.2%.

The holiday period is usually connected to higher inflation rates but this year it was virtually non-existent as it came in only slightly above zero on year on year basis. The risk of deflation in Vietnam is minimal in contrast to other countries and inflation will most likely not be a big theme in 2015. This should allow the government some flexibility with regard to fiscal and monetary policy which could see, for example, an increase in electricity prices at the same time as a continuation of the low interest rate environment. Other relevant economic indicators all remain positive at this stage and the important consumer confidence index managed to continue its uptrend during the first two months of this year.

Vietnam Consumer Confidence Index



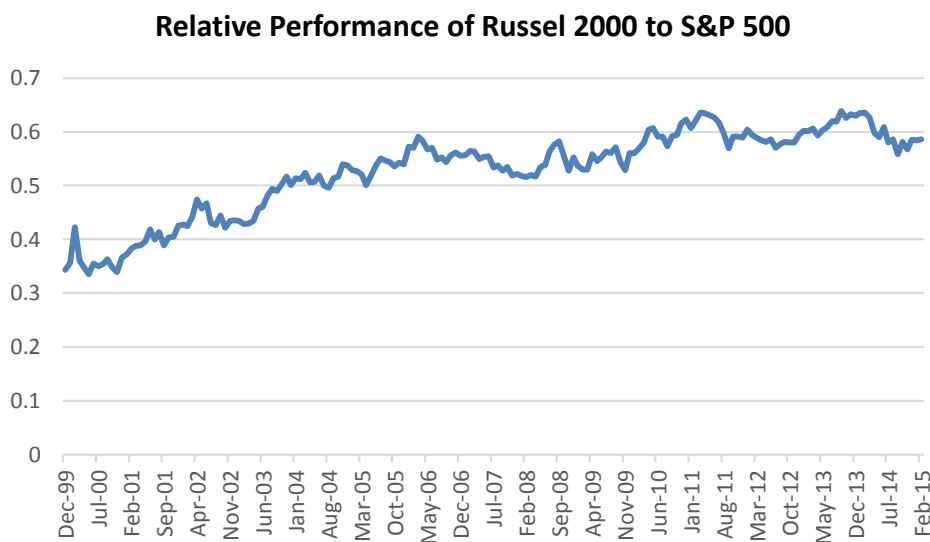
Source: Bloomberg / AFC

Meanwhile the 2014 reporting season has almost come to an end and we generally see a mixed picture. Due to the diversified nature of our portfolio holdings, aimed at minimizing concentration and corporate governance risk, the results of individual companies are not as critical to our performance as opposed to other more concentrated funds. In the AFC Vietnam Fund the top 5 positions make up less than 15% of the portfolio whilst some other funds can see their largest 5 holdings weighted up to 50% or sometimes even higher. It is therefore all the more pleasing, that the estimates for revenues and profits for the 160 companies which we are currently tracking deviated by only 2% and 0% on average respectively. The average median profit increase of these companies in 2014 was +10%, which is higher than the overall market. As a result of this reporting season, we are rebalancing our portfolio and take advantage of some new investment opportunities which we expect to be very beneficial for our investors in 2015.



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Looking ahead in 2015 we are expecting further valuation adjustment of smaller companies. This revaluation, as seen in recent years, typically happens periodically in strong bursts like in spring and autumn of 2014. Historically there are many examples of an outperformance of smaller companies during the first years of an economic recovery, as seen most recently in the 6 years old bull market in the USA.



Source: Bloomberg

The well diversified Russell 2000 index demonstrates quite nicely that only in the late stage of economic recoveries larger companies start performing better than small caps - at a time where smaller companies are already much more expensive on a relative basis than large caps. We expect this situation to also play out in Vietnam and therefore in the future our strategy will slowly shifting into larger caps when small caps are no longer undervalued. Until this happens however, we still see much further potential in Vietnamese small caps and we aware of the fact that in Vietnam there is the "danger" that speculative Vietnamese retail investors will push up smaller and optically cheaper companies way over realistic valuations.

The subscription deadline for this month will be on the 25th March, 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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