



## AFC VIETNAM FUND UPDATE

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

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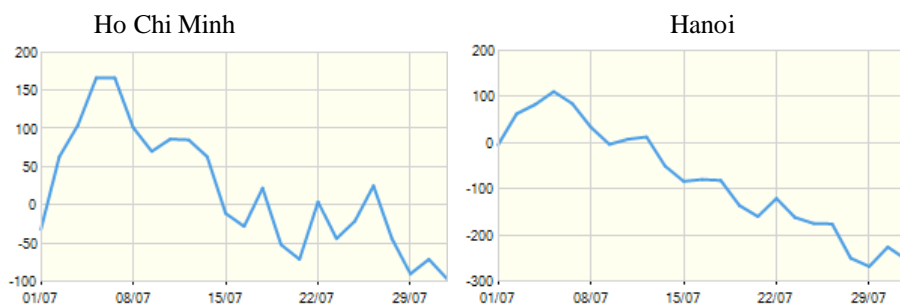
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At first glance it may appear that there were no significant changes in the stock markets behaviour in July 2015. Blue chips in Ho Chi Minh City and a several large caps in Hanoi built on last month's upward trend and again performed quite strongly. Across the board, however, most shares in Vietnam lost ground this month. The index movements have been dominated by moves in banks and insurance stocks and shares with a full foreign ownership limit as well as potential winners of the various free trade agreements have also been advancing nicely. At the same time we observed, in the last couple of weeks of trading, that the underperformance of small caps has ended. This is the first time that this has been seen in months, though an outperformance by this segment of the market hasn't materialised as yet. The first few announcements of quarterly earnings, amongst other factors, have been a catalyst for this trend change, though most of companies haven't reported yet.

In the last few weeks old highs for the market indices could not be overcome or sustained which could be expected after the recent strong rebound. The Hanoi index ended the month up +0.2% after wiping out almost the entire monthly gain from the first 2 weeks, whilst the Ho Chi Minh City index managed to keep a better part of its earlier gains and closed at +4.7%. Given the portfolio makeup of the AFC Vietnam Fund it was less of a rollercoaster ride and the fund held its ground to end the month up +0.1% at a NAV of approximately USD 1,395 (+39.5% since inception December 23, 2013).

### Advance/Decline Ratio (Market Breadth)



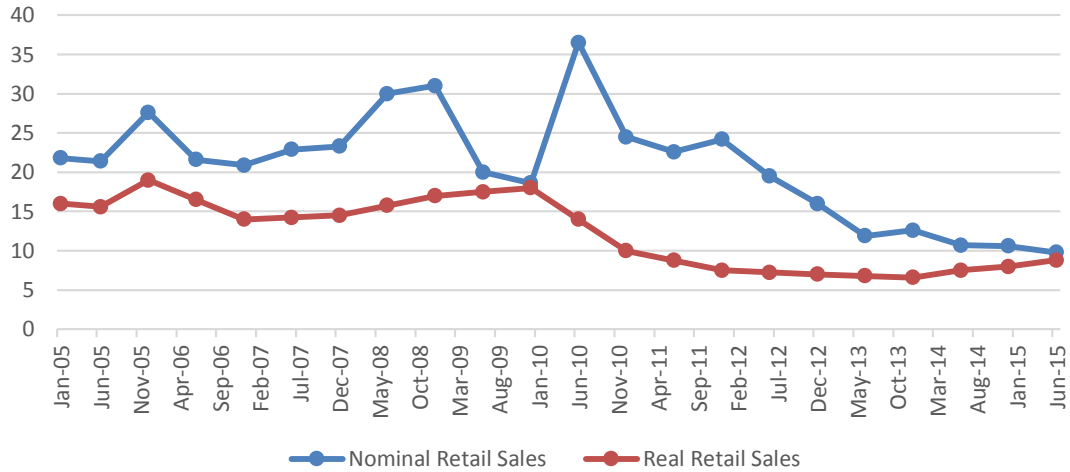
Source: Stockbiz.com

All of us are, of course, waiting for a new, sustainable upward trend to establish itself. It must not be forgotten that the indices are currently trading at about the same level as in August 2014 despite of an improving economy and favourable valuations. In recent weeks there was; the imminent abolition and relaxation of most foreign ownership limits, an official increase in the economic growth target from 6.3% to 6.5%, an expected inflation of below 4% for 2015 as well as meaningful progresses in free trade agreements. Even with other economic indicators such as retail sales, credit growth or PMI (Product Manufacturing Index) one recognizes clearly the improved medium-term trend.



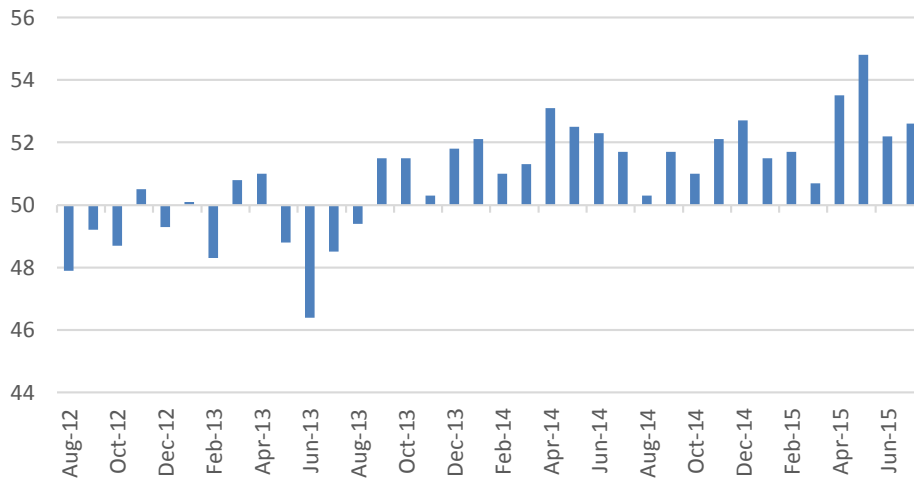
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## Retail Sales Growth



Source: Bloomberg

## PMI - Vietnam



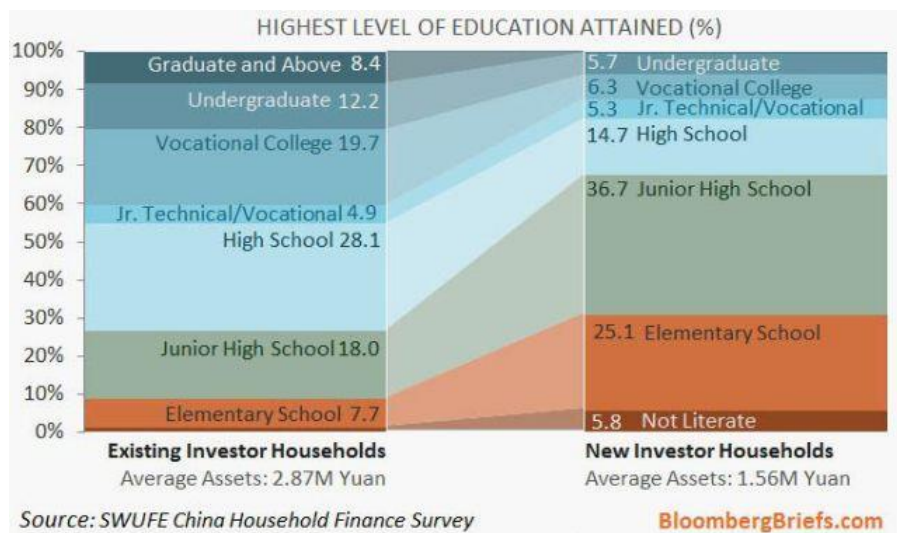
Source: Bloomberg

A recent comparison of regional stock markets shows that Vietnam would have to rise by about 50% to catch up with the "competition". When this is combined with the excellent growth prospects for the coming years this makes the market even more attractive.

One factor, which is paid too little attention in my opinion, is the market behavior and the psychology of market participants, which ultimately decide whether a stock is bought or sold. Every year there are many volumes of undeniably valuable academic studies on Vietnamese and world politics, economics, business and global stock markets produced which are read and discussed. Whatever the ultimate buy or sell decision of private and institutional investors is based on, it is best simplified to the underlying hope for profits or the fear of losses. In my experience it usually does not matter to the majority of market participants whether a listed company is being valued at a price/earnings ratio of 5x or 50x as long one expects further gains.

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As we can observe from the example of the rapid and seemingly chaotic development of the Chinese stock market over the past 12 months, retail investors can create a stock market rally and eventually let this bubble burst as well. In Vietnam it is these small investors which are currently missing from the market. Also, despite the fact that domestic investors in Vietnam are already responsible for 80% - 90% of trading activities, but to be precise it is important to mention as well that there has been an absence of new investors coming online. Currently, active local investors are mainly following shares attracting foreign buyers so they have primarily only showed interest in a handful of index names. It is a pity that Vietnam doesn't produce statistics about new brokerage accounts as this can be a good market indicator. In China at the height of the recent bull market 1.6 million new accounts were opened in just one week! The infamous stereotype that taxi drivers and housewives drive the last phase of a stock market rally has been confirmed once again by looking at China's recent experience.



It might be the source of some curiosity why we have discussed this topic in such a detailed manner. Even though the development of the uncorrelated Vietnamese stock market should be regarded as a positive. The current press coverage of China's stock markets in the Vietnamese and global media is certainly not helping to attract new investors. As we have seen again and again in history, the distance between fear and greed, or vice versa, is often shorter than one might expect.

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What is important to draw from this is that the economic policies, focus on education, investment mentality and the economic development path of Vietnam can best be compared with that of the Chinese approach - even though some Vietnamese people may not like to hear this. It should also be mentioned that there are clear parallels in the development of these equity markets. In the 25 years since the stock market debut in China, there were four market bubbles with excessive valuations and an increase of the index between 150% and >1000% in a relatively short time period. In the 15 year old history of the Vietnamese market, we have had only two comparable bubbles with a 400% gain and similar valuations (2001/2007). These stock market bubbles and busts are not an exclusive phenomenon of China and Vietnam as we have seen this occur in recent decades among others in Asia such as Japan, Taiwan and Thailand. Even the supposedly savvy investors in Europe and the US were able to accomplish similar trends as they irrationally pushed up prices driven by the bullish force of greed. You can see some semblance of this recurring even today with many market participants willing to pay 50-100 times earnings for social media/tech companies though many of them are not even profitable. By contrast our portfolio of Vietnam holdings is valued with a mere average 7.6 times expected earnings for 2015 leaving significant room for upside whilst maintaining protection on the downside.

The subscription deadline for this month will be on the 25<sup>th</sup> August, 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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