



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 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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Once again the breakout didn't happen – as soon as the market tried to overcome the almost one year consolidation phase, a Chinese surprise Yuan devaluation was announced last Tuesday. The surprise 'one off' devaluation, of -2%, continued with another downward push on Wednesday and then Thursday even as the Chinese government tried to reassure the public on the same day! That is certainly one way to lose credibility overnight...

As a result the pressure on most other, already weakening, emerging market currencies increased and currencies of commodity-exporting countries, such as Australia, didn't escape the impact. With the exception of a few frontier markets, most stocks around the globe slumped. Since the devaluation event there have been numerous reports published, trying to analyze the change in competitiveness of exporting countries and its individual companies.

The incident had a knock on effect for the Vietnamese dong and resulted in the decision to widen the USD/VND trading band from 1% to 2% which was a de facto devaluation of 1%. This approach saw the Vietnamese leaders respond to the event without having to deviate from their recent statement not to do any further devaluation this year anymore. If we look at the development of the Vietnamese Dong and the Chinese Yuan over the last two years, a further discussion about possible winners and losers seems to be redundant.



The Dong is exactly at the same level as two years ago, and roughly 1% stronger than one year ago. Unless there is another massive devaluation in China pending I think the whole debate is academic at this point. But I am certain that exactly the same people, who wrote for years about how undervalued the Yuan is and the inevitable appreciation, will report in future of the necessary devaluation of the exact same currency. I therefore refrain from using these vague predictions as a basis for my investment decisions.



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The past few days have demonstrated one thing that is already quite well known; it is nearly impossible to obtain credible economic indicators from the world's second largest economy. Despite this fact almost all analysts and investors follow publicly announced numbers from China to the last decimal point. Nevertheless any weak economic number, in a seemingly weak Chinese economy, is perceived as great uncertainty, and nothing has a more negative impact for financial markets than uncertainty.

In Vietnam, we saw some setbacks in the first half of the month again as stock market indices failed to overcome old highs and the recent rise was not supported by the broad market. The exchanges in Ho Chi Minh City and Hanoi lost -5.2% respectively -5.0% and on a 12-month basis, the indices are now even slightly negative.

There has been at least some good news, as some of the stocks in our fund managed to increase against the trend after announcing their earnings and hence balanced out the negative performance of some of our other holdings. In local currency the fund only lost around -0.3% but, due to the currency shift against the USD, the NAV according to internal calculations now stands at around USD 1,375 (-1.6%, YTD + 1.4% in USD terms).

Vietnamese equity markets are in a historically difficult seasonal phase but with the progression of Q3 we should be able to leave this soon behind us. If the current support levels in Vietnam hold, it could well be that we will see an upward trend beginning again in the coming weeks.



Source: VietCapital Securities

The subscription deadline for this month will be on the 25th August and 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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