



AFC VIETNAM FUND UPDATE

Fund Category	Vietnam Public Equities
Country Focus	Vietnam
Subscriptions	Monthly at NAV (five business 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

Contact Information

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There was a continuation of the positive trend over the first days of November, especially in popular blue chips such as Vinamilk and FPT, which increased within a few days 10-20%. Unfortunately this trend reversed and the same names declined sharply, in conjunction with outflows of foreign investors, which altogether led to uncertainty and falling prices across the board. After the strong increases in the previous month, this correction happened at the same time with many other markets in the region and unfortunately also emerging market currencies came under pressure again, even though major currencies such as the Euro or Yen lost significantly more in value than the Vietnamese Dong.

Hence, also the two indices in Ho Chi Minh City and Hanoi declined and closed the month with a loss in USD terms of 6.3% and 2.7%. We took advantage of the rising stock prices over the last few weeks and did some important rebalancing of our portfolio in order to be optimally positioned for 2016. We realized some profits in many of our shares which rose sharply over the past few months and we adjusted quite a few positions after the 9 months earnings release in line with our valuation model. According to our internal calculations, we finished this month with a negative performance of 1.7%, at an NAV of approximately USD 1'415.

We will be celebrating our 2 years anniversary on December 23, and we therefore think it is a good time to analyse how and if Vietnam fulfilled our expectations.

VN30 Index



Source: VietCapital Securities

Most certainly, the turbulences in emerging markets and the weakness of those currencies have had a negative impact on the Vietnamese stock market, which was unable to reach its full potential in terms of absolute performance - the main index is only a mere 6.5% higher in USD terms since the date of our fund inception and the VN30 index which includes names of both indices was even minus 3.5%. China's slowdown of the economy and the associated slump in commodity prices, but also the sometimes rather sluggish implementation of important economic reforms such as the privatisation process and the changes in foreign ownership limits were equally counterproductive for the development of Vietnam's economy. It is however important to note, that quite often comparisons are drawn between Vietnam and countries that enjoy a disproportionately higher state of economic development (such as e.g. Philippines, Malaysia or Thailand) and in this respect the progress of the last two years can also be considered quite positive. Especially the enormous future potential that arise through various free trade agreements and the relatively well-functioning stock market – not yet the case for the bond and the soon to be launched derivative market – are providing a very attractive investment opportunity. Also the macroeconomic picture has significantly improved since 2013.

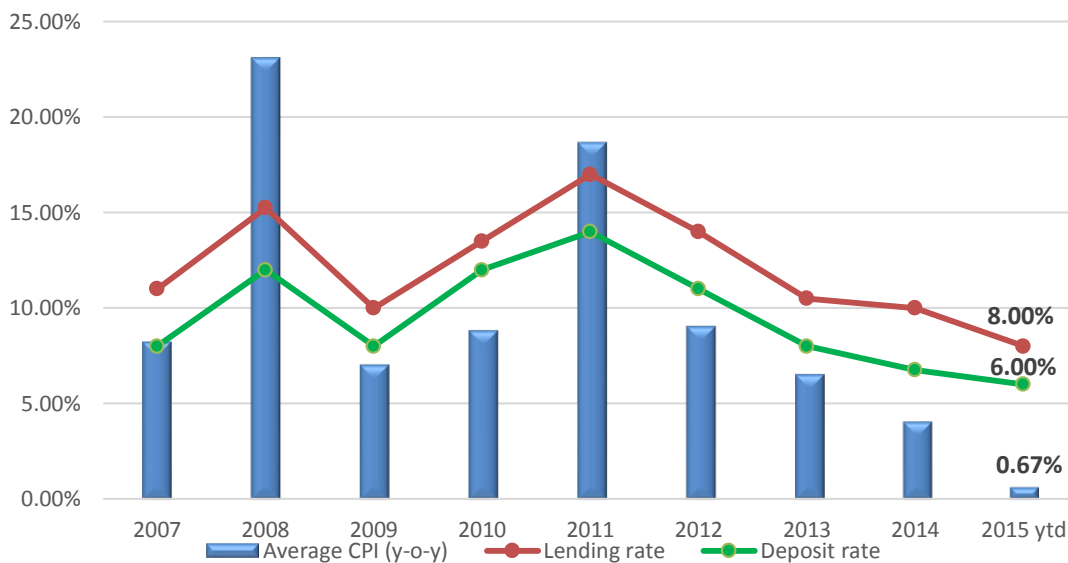


AFC VIETNAM FUND UPDATE

While at that time the main topics were inflation, banking crisis or weak economic growth. Should there be no external shocks, Vietnam has now an economy which is on a solid path to a sustainable recovery with one of the highest GDP growth rates in the region

It was interesting to note that the ANZ-Roy Morgan Vietnam Consumer Confidence Index continues to increase and stands now at 142.3, above the 2014 average of 133.3pts. The Vietnamese economy has remained immune to a regional trade recession, especially domestic sectors which are well insulated from the slowdown in trade growth regionally and internationally. Given the various Free Trade Agreements which Vietnam signed with e.g. Europe, Russia (Eurasia), TPP and ASEAN over the course of the past few months and years, will certainly help to keep the upward momentum in consumer confidence in at least the medium term intact. The trade deficit for the first 10 months of 2016 has reached USD 3.6bn, which is about 2.7% of total exports which are now standing at USD 134.4bn. HSBC wrote in a recently published report that Vietnam will be able to strengthen its position to become the world's tenth largest exporter by 2050 with export value reaching USD 1.4 trillion.

Vietnam Interest Rates and Inflation



Source: World Bank, Vietnam General Statistic Office

The current valuation of the stock market remains as attractive as in 2013, with a current 12 times earnings multiple for 2015. Our price earnings ratio of 7.7 times for 2015 is only slightly higher than 6.6x at the time of our fund launch. We are waiting for a major market breakout since a while, but it is precisely these two components (further reduction of undervaluation and growth) which give us confidence that this will happen soon.

AFC VIETNAM FUND UPDATE

HCMC Index



Source: VietCapital Securities

Thanks to our stock selection, we managed to achieve an impressive absolute return during the first 2 years of our fund, especially when considering how little the index moved over the same period. We are very curious to see how we will perform when the long awaited market breakout will finally happen!

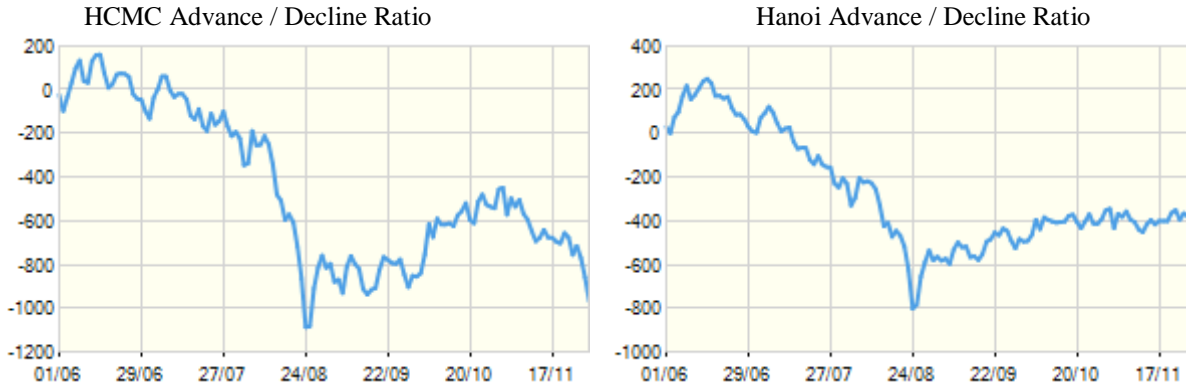
	23/12/2013	30/11/2015	+/- (in VND)	+/- (in USD)
HCMC Index	508.68	573.20	+12.7%	+5.7%
VN30 Index	565.98	581.94	+2.8%	-3.5%

Performance since Inception

AFC Vietnam Fund in USD	+41.5%	41.5%
AFC Vietnam Fund in CHF	+64.0%	64.0%
AFC Vietnam Fund in EUR	+82.8%	82.8%
AFC Vietnam Fund in THB	+55.7%	55.7%
AFC Vietnam Fund in GBP	+53.8%	53.8%

Already slightly positive over the past few weeks are the significantly better development of small and mid-caps and the improving market breadth (advance / decline ratio), but we need to have soon a market rebound in order to eventually see a classic breakout of the index.

AFC VIETNAM FUND UPDATE



Source: stockbiz.com

Vietnam Small Cap Index



Source: VietCapital Securities

The subscription deadline for this month will be on Wednesday the 23rd December, 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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