



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	EY, Hong Kong
Administrator	Custom House, Singapore
Legal Advisor	Ogier, Hong Kong
ISIN	KYG0133A1673

Contact Information

Asia Frontier Capital Ltd.
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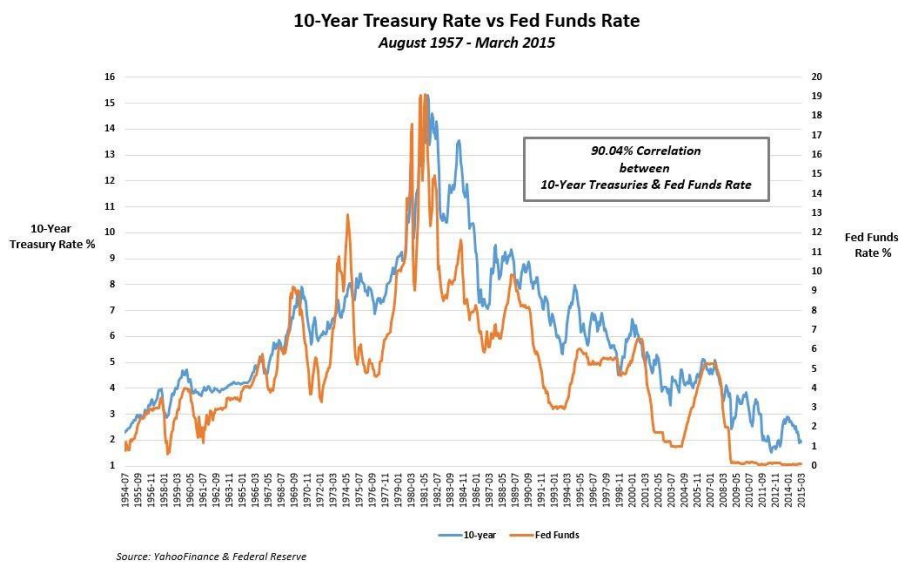
Registered Office:
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New lows in oil prices, weakness of emerging market currencies like the Russian Ruble and the Chinese Renminbi, and a global increase in nervousness before the FED - interest rate decision on Wednesday had the effect the two indices in Ho Chi Minh City and Hanoi lost in the first half of the month 1.9% and 2.3% respectively. By comparison, the Fund NAV based on internal calculations stands now at approximately USD 1,396 (-1.4%).

There were no tweets at the last US interest rate hike, and also the newly launched social media platform Facebook had no posts about this subject. June 2006, almost 10 years ago, was the beginning of a new area with the start of internet 2.0, but also a completely different global economic order, which knew long-lasting economic crisis only from the history books. Will this week bring the 34 years old cycle of falling interest rates to an end? Should this really happen, then it would have long-term far-reaching consequences for all asset classes. The easiest way to understand one of these consequences is to have a look at the high correlation of bond yields to the level of Fed Funds. Many large bond funds had already experienced massive outflows recently - but what to do with all the money? The year of 2015 is best described as *"little to gain, much to lose"*.

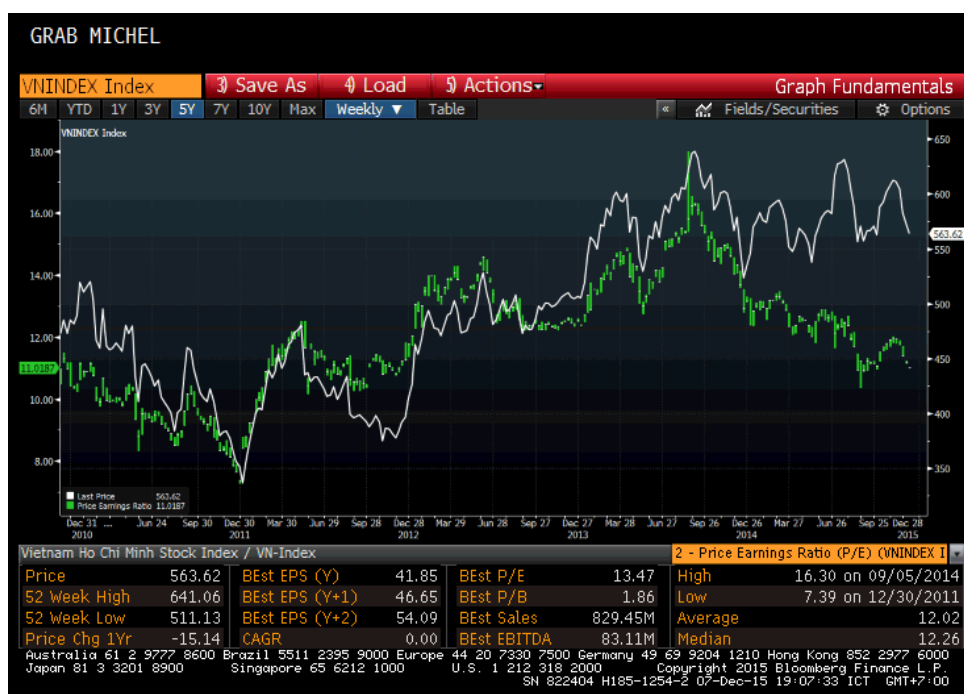


Shares usually suffer only after several interest rate hikes, when rates reached a level which offers an attractive alternative to stocks, which is currently definitely not the case. Comparing to earlier bull markets with a similar level of interest rates, stocks only started to fall once the Fed Funds went from about 1% to 5% (60s; 2004-2007). Emerging markets however, which are typically the major beneficiary with massive money inflows towards the end of a global bull market are suffering in this cycle, as currently seen with an annual loss of approximately 19%. Over the last month we saw USD 70 million outflows from foreign investors in Vietnam, but since the beginning of the year they remain positive with an overall year to date inflow of USD 120 million, unlike many other markets. There are probably hardly any people able to make money in the commodity sector this year and also the major global equity markets had better times. The market breadth (advance/decline ratio) in the US was very weak, which means that most stocks performed poorly and only a handful were able to keep up the index to some extent; the Dow Jones currently trades at about 3% lower for this year and also the German DAX Index in USD terms is about 4% in the red.



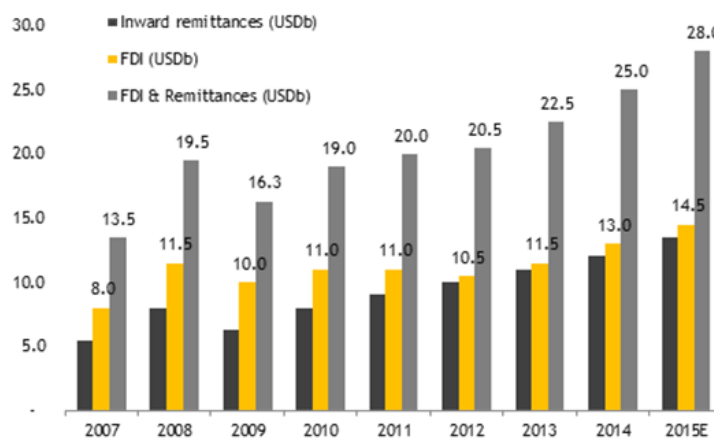
AFC VIETNAM FUND UPDATE

We do not make any forecasts for 2016, but in 2015 Vietnam, as a rising star, could strengthen its position within the emerging / frontier market segment and is now being touted as the next "tiger economy". The valuations of many countries in the region have come back significantly due to the negative performance and also Vietnam is now trading at valuation levels we have last seen when the stock market reached its bottom in 2011/2012.



Source: Bloomberg, Viet Capital Securities

Since then, however, the overall economic situation in Vietnam has improved significantly and foreign investors of the real economy are continuing to invest into Vietnam.



Source: Maybank Kim Eng Securities Ltd.

AFC VIETNAM FUND UPDATE

In conjunction to the positive outlook, also the technical market analysis which currently rates Vietnam as oversold, gives us confidence to believe that Vietnam will also show relative strength to other markets in 2016.



Source: Bloomberg, Viet Capital Securities

The subscription deadline for this month will be on the 23rd of December and if you would like any assistance with the investment process please be in touch with myself or Andreas Vogelsanger.

We would like to wish you and your next ones a happy and festive season!

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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