

## AFC VIETNAM FUND UPDATE

<b>Fund Category</b>	Vietnam Public Equities
<b>Country Focus</b>	Vietnam
<b>Subscriptions</b>	Monthly at NAV (five business days before month end)
<b>Redemptions</b>	Monthly at NAV 60 days notice
<b>Benchmark</b>	VN Index
<b>Fund Manager</b>	Vincente Nguyen
<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

### Contact Information

Asia Frontier Capital Ltd.  
www.asiafrontiercapital.com

Mr. Andreas Vogelsanger, CEO  
Asia Frontier Capital (Vietnam) Ltd.  
Tel: +66 84435 7472, Fax: +852 3904 1017  
av@asiafrontiercapital.com

Registered Office:  
c/o Elian Fiduciary Services (Cayman) Limited,  
89 Nexus Way, Camana Bay, Grand Cayman,  
KY1-9007, Cayman Islands

Hong Kong Office:  
Asia Frontier Investments Limited  
1208, 12<sup>th</sup> Floor, Loon Kee Building  
267-275 Des Voeux Road Central  
Hong Kong



After the sharp rise in the month of June and the first week of July, it didn't take long until we saw a market correction.

The increase in the HCMC index was due to only two stocks, while many stocks were trading down sharply, though what can be described as a healthy consolidation. After all, the Hanoi index lost 6% from the early July peak, closing the month at -1.2%, while the index in HCMC, because of the special movements of two shares, increased by 3.2%. It is therefore not surprising that this month's NAV is only up by 2.8% at USD 1,675, according to internal calculations.

The topic of the month was certainly the abolition of the foreign ownership limit restriction of Vinamilk, which was probably the most sought after share in recent years. Ahead of this event, domestic investors pushed the stock up to a high of +29% YTD (+16% in July alone). When finally, foreigners were able to buy the stock, but against expectations didn't rise much further, a broad market correction started. The table below with the 10 highest weighted shares in the HCMC index shows the impact of these special movements and in consequence how distorted the market picture can look like:

Code	Market cap (USD mn)	30/6/2016	29/7/2016	% change	Weight	Affect on VN-Index	Remarks
VN-Index	58,843	632.26	652.23	3.16%			
VNM	8,504	141,000	158,000	12.06%	14.5%	1.74%	FOL increases to 100%
VCB	6,453	47,300	54,000	14.16%	11.0%	1.55%	Profit before tax 1H-2016 up 35%
VIC	4,675	49,400	51,000	3.24%	7.9%	0.26%	USD 300m capital raise which boosted investors' confidence
GAS	4,971	62,500	58,500	-6.40%	8.4%	-0.54%	Oil price fell more than 15% in July
CTG	2,972	16,800	17,800	5.95%	5.1%	0.30%	Profit before tax in 1H-2016 increased 10% yoy
BID	2,972	17,500	17,600	0.57%	5.1%	0.03%	
MSN	2,112	66,500	64,000	-3.76%	3.6%	-0.13%	
BVH	1,800	59,000	59,000	0.00%	3.1%	0.00%	
HPG	1,157	39,600	44,500	12.37%	2.0%	0.24%	Record high profit in 1H-2016
MBB	803	14,900	15,000	0.67%	1.4%	0.01%	
<b>Total affect to VN-Index</b>						<b>3.5%</b>	

Such special movements will certainly happen again, but it will not influence our long term goal to offer our investors a portfolio with attractively valued shares which should continue to perform nicely. Larger funds, which are often tracking the main index closely, must have enjoyed the performance of this handful of index stocks, but given that these shares are trading now at a PE of over 20x, I ask myself, whether in the long run there is any potential left above their earnings growth. We continue to see the main potential in revaluation of much cheaper companies although we still hold Vinamilk as well.

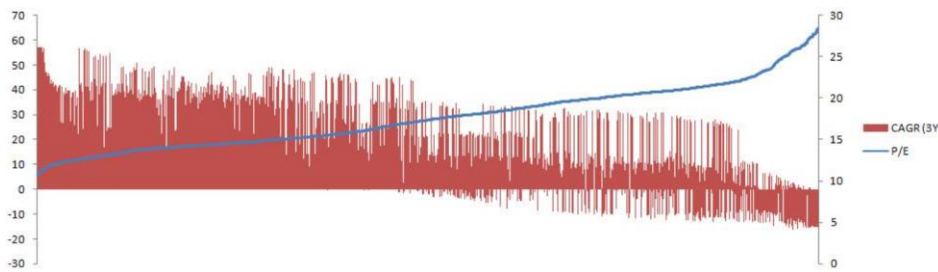


## AFC VIETNAM FUND UPDATE

There is relatively little to report on the macroeconomic front. Inflation seems to be manageable at currently 2.4% and the trade balance shows, to most people’s surprise, a surplus of USD 1.8 billion for the period of January to July. Given that a big part of the strong FDI (Foreign Direct Investment) was targeted to the manufacturing sector, one has to expect a high level of imports of machinery in the second half of the year, which might bring down this surplus again.

FDI sharply increased by 46.9% in regards to new registrations and 15.5% based on disbursements. It proved that foreign investors continue to choose Vietnam as a good destination for their investments. Instead of investing into the real estate sector like during the last cycle, in 2016 more than 70% of FDI in the first half of 2016 was poured into the industrial sector which is expected to boost the Vietnamese economy in the future.

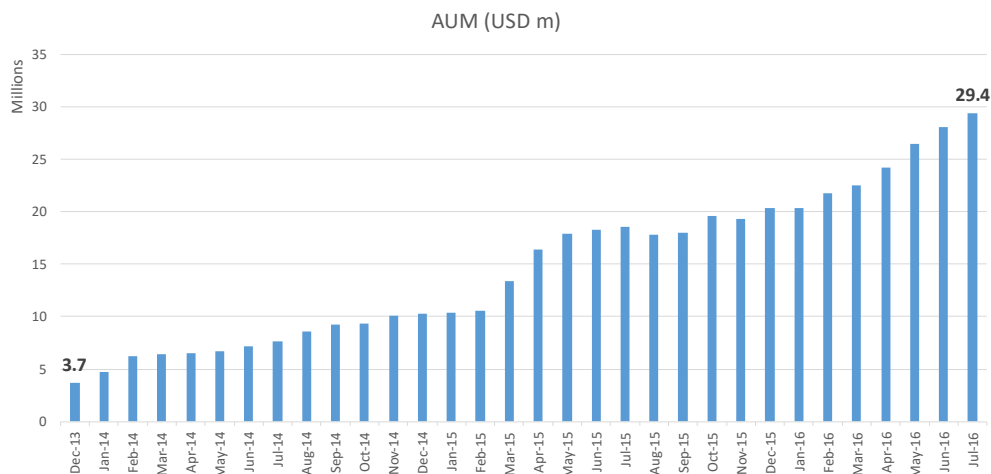
According to currently available earnings results we expect an average PE of 9x for our portfolio in 2016. Despite the nice gains since the beginning of the year, the upside potential remains unchanged, with a revaluation of Vietnam to international earnings valuation of around 15 – 17 times. A long term analysis of India found an interesting conclusion in investing in low P/E stocks versus more expensively priced stocks. We have already seen similar performance differences in Vietnam in the past. With a median PE ratio of 6.5 at the inception of our fund and currently a still inexpensive valuation of around 9 for 2016, we should obviously continue to see the benefits of the ongoing re-pricing in the future.



P/E Ratio	Returns (CAGR) %	
	3 Years	5 Years
Below 12	39	40
12-16	28	37
16-20	13	28
20-24	4	26
Above 24	-7	26

Source: stableinvestors.com

After only 2 ½ years, our assets under management have increased from an initial USD 3.7 million to over USD 29 million, due to the fund performance and the increased investor demand (we saw a record number of subscriptions in the month of July). With our strategy of having a very broad diversification in attractively valued companies, as compared to the conventional high concentration in individual big cap stocks, we are very confident that we will continue to be able to deliver strong results in the future despite our strong growth.



## AFC VIETNAM FUND UPDATE

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

### Estimated NAV as of 31<sup>st</sup> July 2016

<b>NAV</b>	USD 1,675*
<b>Since Inception</b>	+67.5%*
<b>Inception Date</b>	23/12/2013

### Monthly Performances AFC Vietnam Fund

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
<b>2013</b>	<b>USD</b>												+2.37%	<b>+2.37%</b>
<b>2014</b>	<b>USD</b>	+8.75%	+4.50%	+2.18%	-4.65%	-0.32%	+1.45%	+1.86%	+5.49%	+3.87%	+2.83%	+2.50%	+0.60%	<b>+32.50%</b>
<b>2015</b>	<b>USD</b>	+0.44%	+1.76%	-0.96%	+1.93%	-0.48%	+0.06%	+0.22%	-4.57%	+1.18%	+6.90%	-1.82%	+0.25%	<b>+4.62%</b>
<b>2016</b>	<b>USD</b>	-0.10%	+3.30%	+1.28%	+3.17%	+1.40%	+4.97%	*+2.8%						<b>+18%*</b>

\* According to internal calculations

*\*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. The fund is authorized for distribution to professional investors in Hong Kong, Japan, Singapore and the UK.*

*By accessing information contained herein, users are deemed to be representing and warranting that they are either a Hong Kong Professional Investor or are observing the applicable laws and regulations of their relevant jurisdictions.*

#### DISCLAIMER

Investments in equities in Vietnam are subject to market risk, idiosyncratic risk, liquidity risk, and currency exchange rate risk. The fund may use financial derivative instruments as a part of the investment process. This document does not constitute an offer to sell, or a solicitation of an offer to buy shares in AFC Vietnam Fund. We will not make such offer or solicitation prior to the delivery of an offering memorandum, the operating agreement or articles of association, a subscription booklet, and other materials relating to the matters herein. Before making an investment decision, we advise potential investors to read these materials carefully and to consult with their tax, legal, and financial advisors. The materials have not been reviewed by the regulatory authority of any jurisdiction. Investment is open only to accredited investors as defined by the relevant legal jurisdiction of residence and/or nationality. We have compiled this information from sources we believe to be reliable, but we cannot guarantee its accuracy. We present our opinions without warranty. Past performance is no guarantee of future results. © 2016 Asia Frontier Capital Limited. All rights reserved.