



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

Contact Information

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Similar to the same time last year, the market was quite weak at the beginning of the month and then recovered strongly towards the end of the month mainly due to a rally in banking stocks. The Ho Chi Minh Index closed the month up +1.3% and the Hanoi Index closed the month up +0.6%. In local currency terms, we managed to close the month in positive territory, but in USD we closed slightly negative, mainly due to the Dong devaluation, our low beta and the high index weighting of some of the banks. The fund's extremely low beta of 0.6 means that will participate only +/- 0.6% with a daily index move of +/- 1%. In the longer term however, we expect to outperform the market with our stock selection as we have successfully demonstrated in the past. According to our internal calculations the NAV stands now at approximately USD 1'390 (-0.7%).

The Q1 earnings season has now been completed and we can draw several conclusion for our portfolio. As in recent quarters, the business results of our invested companies are quite diverse, but overall we see at least the same growth as in Q1 2014 and expect all of them to be profitable this year. The recently purchased oil and gas stocks, show in contrast small but solid earnings growth. Nevertheless they are now attractively valued after their recent stock price decline of almost 50%. During the recent market weakness we added a few larger companies to our buy list. Adding more and more larger companies to our portfolio is in line with the growing assets in our fund, in order to ensure an appropriate liquidity of our underlying's in relation to the fund size. With currently around 100 investible companies we are able to absorb easily large fund inflows, without diluting the return expectations.



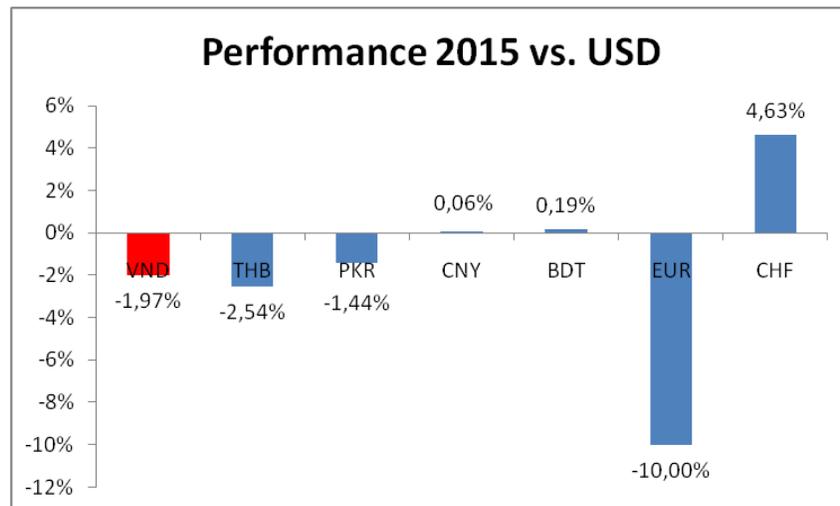
Source: VietCapital Securities

The chart above shows the current upside potential of small caps which are still trading around 10% below its peak in November 2014 whereas large caps already started trending upwards.



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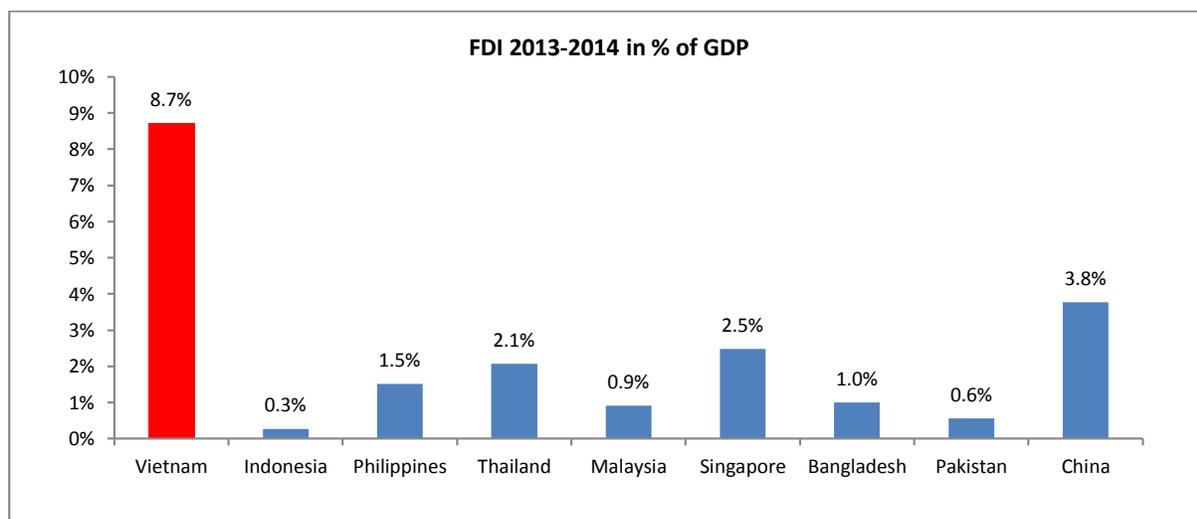
In early May, the Vietnamese currency was devalued by another percentage point. Thus, the currency band is (+/- 1%) to USD in average at 21 673 to 21 458 and is currently trading at around 21,800. This measure is designed to maintain the competitiveness of Vietnam against its main trading partners. In order to further develop the export power of Vietnam, a competitive exchange rate development versus the US, but also Japan and particularly China are of immense importance. The graph below, comparing some of Vietnam's competitors as an export country, clearly shows that only Bangladesh and China's currency were stable versus the USD. The State Bank of Vietnam (SBV) reaffirmed last week that it will not depreciate the VND any further from now until the year end.



Source: Bloomberg

However, these currency movements should not be overstated, because the monthly exchange rate fluctuations against the CHF and the USD since the launch date of our fund was almost 0 and only against the Euro we had a monthly appreciation of approximately 1% (due to the weakness of the Euro).

Regarding important macro-economic data relevant for the stock market, especially Foreign Direct Investments (FDI) are worth mentioning. During the first 4 months of the year they reached an impressive USD 3.7bn which is almost the same level as the same period of last year. This compares very favorably with similar countries such as Thailand. New foreign investment is also very important to increase knowhow and technology in Vietnam in order to move the country up the value chain as the economy develops.



Source: World Bank

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Our current portfolio is well diversified, and with an average P/E ratio of only 7.4x which is more than a 50% discount to the regional and international markets, we are well positioned and we are waiting for the next sustained rise in the Vietnamese stock market, which may have already been initiated with the soon to be expected change in the Foreign Ownership Limits (FOL).

Stock Exchange	Ho Chi Minh City	Hanoi
Market Cap in USD (billion)	47.9	6.2
Foreign Ownership	23%	14%
Trading Volume in USD (million)	100	25
Avg. Foreign Trading Volume (%)	15%	5%
Number of listed Companies	303	362
AFC Vietnam Fund invested Companies	41	42
AFC Vietnam Fund Portfolio Weighting	52%	48%

Source: SSI Securities Services May, 18-29, 2015

The split of company listings between HCMC and Hanoi is about 50/50. Our stocks have a total market combined market capitalization of USD 10 billion (total market cap of HCMC and Hanoi 54 billion). Also the average price/book ratio of 1.16 and dividend yield of 6.4% demonstrate the attractiveness of our portfolio.

The subscription deadline for this month will be on the 24th June, 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.*

DISCLAIMER

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