



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 NAV appreciation with high watermark
Fund Domicile	Cayman Islands
Launch Date	11 December 2013
Custodian Bank	Viet Capital Securities, Ho Chi Minh City
Auditor	Ernst & Young, Hong Kong
Administrator	Amicorp Fund Services Asia Pte Ltd., Singapore
Legal Advisor	Ogier, Hong Kong

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The rather disappointing market trend continued also in the second half of the month. Undeterred by the recovery of international stock markets, such as in the USA, Europe and China, the Vietnamese market declined further without an obvious reason and finished the month with a loss of -3.7% (Ho Chi Minh) and -5.1% (Hanoi). Nevertheless we remain of the opinion that a turnaround of the market is imminent and we therefore started to add for about 10% of our total portfolio some heavy weighted index names. These latest additions were of course also affected by the recent sell off, but the overall portfolio performed well and according to internal calculations we were able to achieve a small increase of our NAV to around USD 1.350 which in USD terms equates to +35% since inception on December 23, 2013, or +49% for CHF-based investors, or 51.8% for EUR-based investors.

Yearend Review 2014

The still relatively young history of the AFC Vietnam Fund was market - as one would expect from a frontier market - with a few excessive price movements. One of the reasons was that a handful of index shares were heavily influenced by foreigners with in- and outflows, depending on the actual market situation. However, foreigners still make only around 10% of the total volume (on the Hanoi exchange even well below 10%). Hence, the majority of the share volume is dominated by locals, of which some of them are highly speculative investors which trigger often erratic price movements. It is therefore not surprising to observe that in times of crisis or sometimes only small events, the stock market falls or rises 10% to 20% in a very short time period.

In order to better assess the current status of the Fund, we compare the key facts and figures as of yearend 2013 and 2014:

At the end of 2013 we were just at the beginning of an economic recovery in Vietnam, with a stable currency and the first attempts to implement a solution to the non-performing loan issue which resulted back from the crisis between 2007 and 2012. Inflation was expected to stabilize at around 7%, allowing the export industry an even trade balance. At the time the consensus estimates of the financial analyst community was that earnings growth should be around 12%, and the stock market was expected to achieve a 25% to 30% overall return.

Back in the present, we now see that the only correct forecast was that the currency depreciation was only about 1% against the USD; against most other major currencies including the EUR and the CHF, the currency even significantly strengthened. Inflation has been revised lower, month by month and should be at a yearly average of around 4%, due to the collapse in the oil price. Also the trade balance, thanks to strong industrial and agricultural exports with more than one per cent of GDP, should be positive. Also the banking sector seems to recover slowly, especially a much faster than anticipated recovery in the real estate sector is stimulating the sector. Equally gratifying was the service sector which has contributed to almost half of the economic growth, a very positive signal indeed for a developing country. On the negative side, the earnings growth of 3% to 4% was significantly weaker than the 12% forecast at the beginning of the year.

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The next subscription deadline will be on January 26.

Best regards and all the best for 2015!

Andreas Karall, CIO



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