31st Aug 2015

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

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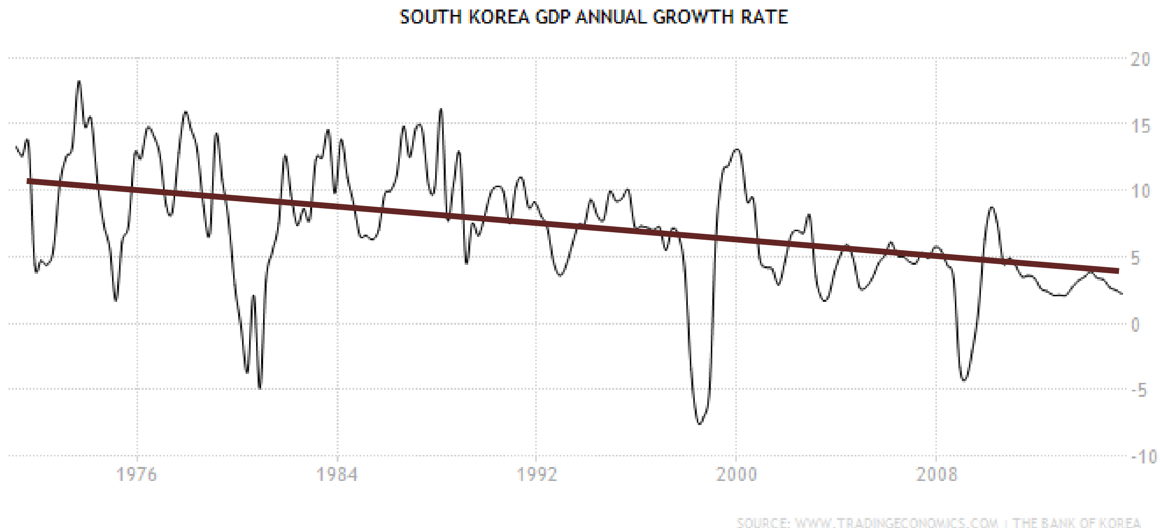
Though there seems to be an air of repetition recently we will again begin our market commentary with an update on the continued developments out of China.

The stock market movements seem to have completely decoupled from other economic and company-specific factors. The markets are being driven by the threat of a much weaker Chinese economy than previously thought (realistically growth will be 4-5% instead of the officially announced 7%) and the impact on Chinese investors with the huge losses in the stock market (-37% since June) so there is one thing spreading throughout the world of finance in August: fear!

Instead of the endless debate about Greece, Euro and Fed rate hike from "near zero" to "something slightly above zero", suddenly themes such as the China's stock market crash, the oil price decline (Part II) and the losses from emerging markets are dominating the daily news headlines. This discussion is happening alongside a backdrop of falling commodity prices, which have now reached a 16-year low. The Chinese stock market is being referred to a as a bubble that finally burst but at present it is still trading 45% higher than a year ago. At the same time emerging markets have already lost nearly half of their value in comparison to the major world stock market indices over the past four years. These boom-and-bust cycles that arise in emerging markets are quite common and a correction of global stock markets since 2011 has been long overdue.

Dow Jones Industrial Average 2011-2015, Source: Yahoo Inc.

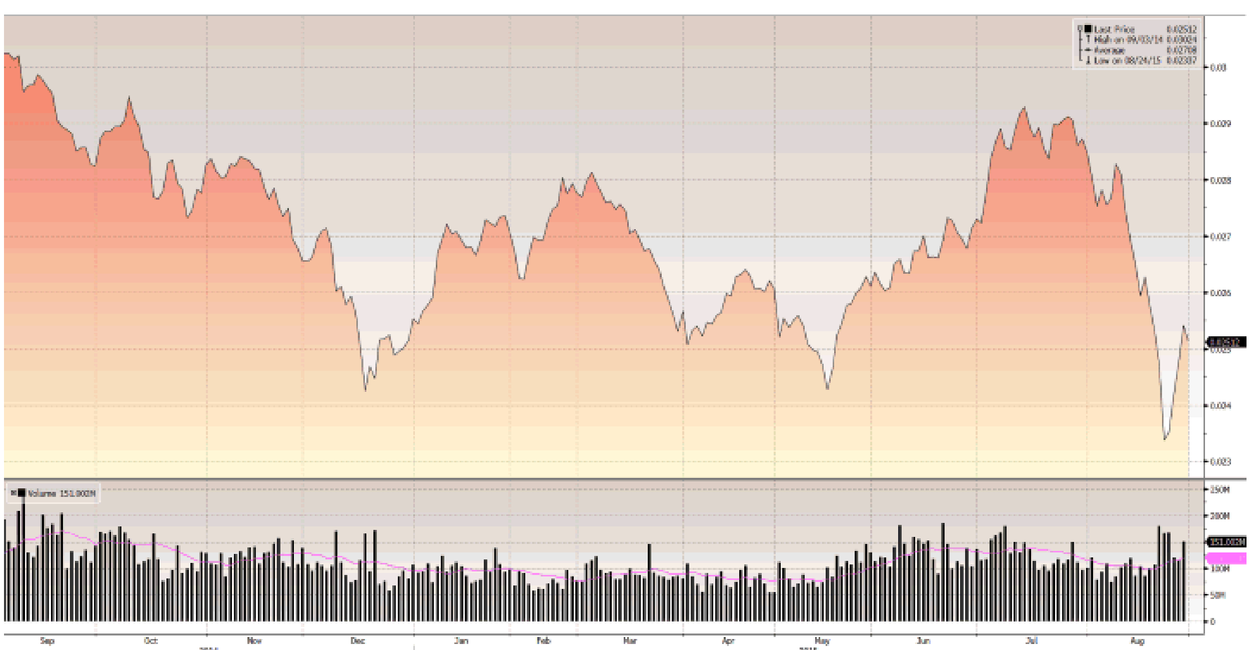
Eventually the world will come to realize that the times of annual growth rates of 7-10% in China are over. Over the past decade China has been repeatedly advised to better balance its economy by increasing domestic demand to become less dependent on "cheap" exports to, ultimately, stimulate sales of foreign products to China. This is a development that has happened in other economies, such as in Europe as well as Japan after WWII and later in the tiger economies in Asia. It goes without saying that such massive transformations within economies as well as structural rebalancing and the resulting slowdown in economic growth, doesn't create a smooth linear path.



GDP Growth of South Korea 1970-2014, Source: www.TRADINGECONOMICS.com; The Bank of Korea

Without delving too deep into the theoretical underpinnings of the drivers it can be seen using the example of Korea above that with the increasing degree of economic development, the GDP growth rate continuously - but with a high volatility - declines. This can also be seen anecdotally by looking at the growth rates in the advanced versus developing economies. If this wasn't be the case and China had the capacity to continue to grow by 7-10% per year for another generation, then in theory in 25 years from now we would see at least 6x as many cars on the streets as today. This would have the effect of gridlocking infrastructure and boosting the already massive levels pollution beyond toxic levels. This would also see China's economy grow to be greater than US and Europe combined - or 10x as big as Japan or Germany.

Due to the global negative sentiment the Vietnamese market has also seen a few trading days in panic mode. Not only were the gains of recent months wiped out within a few days but also the HCMC VN Index is now trading -16% below the level of the previous year in USD terms.



HCMC Index 31. Aug .2014 to 31. Aug, 2015; Source: Bloomberg

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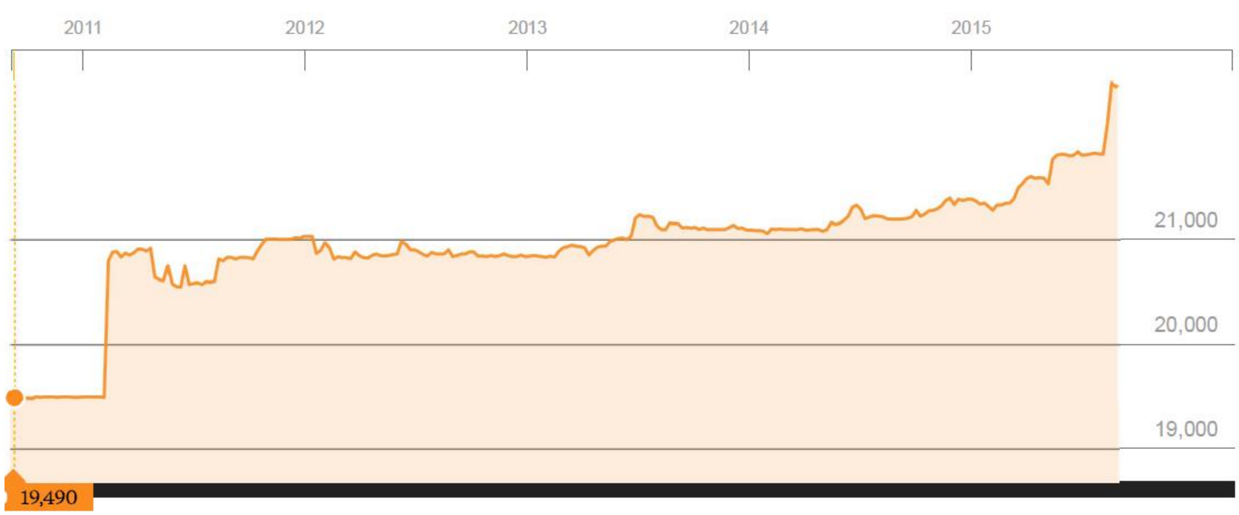
In addition to the general market decline, the two-time non-scheduled depreciation of the Vietnamese Dong is also responsible for compounding losses for foreign investors. The currency weakened by 3% versus last month and has been to the detriment of our comparatively strong equity performance. Despite the chaotic stock market movements this month, the loss for our portfolio was relatively modest with only 1.7%, but due to the weaker currency our the NAV stands now at around USD 1,330 (-4.8%) according to our internal calculations. By comparison, the USD performance of the Ho Chi Minh City index was -11.8% and the Hanoi index was -12.4%.

Rather than dwelling on the volatility of past events, we are much more interested in the future outlook for Vietnam. The situation looks much brighter for investors if we focus on the initial reasons why we have invested in Vietnam and we put the short-term turbulences aside for a moment. The companies which we have invested in have delivered fairly good Q2 earnings numbers and our full year estimates have been confirmed. All of the 80 companies in our portfolio should be profitable in 2015 and we continue see enormous long-term upside potential for the fund with an expected average price / earnings ratio for 2015 of only 7.4x. Due to the recent quarterly results, we increased the average sales estimates by 2.5%, while the outlook for earnings growth remains unchanged.

Also if we have a glance at the latest news coming out of Vietnam, it confirms our optimism for the future of the market. The first companies have begun to announce that they will increase their Foreign Ownership Limits (FOL) to over 50% (specifically the first brokerage firm announced an increase of their FOL to 100%) while at the same time macroeconomic numbers continue to be encouraging. The Vietnamese Ministry of Planning and Foreign Investment Agency announced last Thursday that foreign direct investment had reached USD 13.3 billion as of August year to date. This was an increase of over 30% compared to the previous year to set a new record. Inflation has also fallen again in August and now stands at 0.6%; it seems likely to stay below 2-3% for the whole year.

Finally it is worth touching on the current situation for the Vietnamese currency. From the government point of view, the widening of the USD/VND trading band from 1% to 3% has not been officially viewed as a currency devaluation but, similar to China, as a step towards a more realistic exchange rate level. They also moved to assure markets that there would be no further devaluation until the first quarter of 2016 – though you will have to interpret what you will from this.



USD-Dong 2011-2015, Source: Bloomberg

The previous large depreciation of the Dong in 2011 happened in a completely different economic environment than today. At the time Vietnam had a double-digit inflation rate, a real estate and a banking crisis developing at a time of weak economic growth. This month's devaluation was primarily in response to external problems impacting the recovery of the economy in a very low inflation rate environment (below 3%). Looking at the comparison with other emerging market currencies and commodity-exporting countries, puts the recent Dong weakness into perspective. Even main currencies such as the Euro appreciated by almost +5% in three days this month, before rapidly declining 5% again.

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Most of the global currency movements have been even more dramatic in comparison to the VND and below is an overview of various exchange rate movements versus the USD in the first 8 months of 2015.

		+/- vs USD in %			+/- vs USD in %
USD/NZD	**New Zealand**	-20.6%	USD/SGD	**Singapore**	-6.6%
USD/MYR	**Malaysia**	-20.1%	USD/VND	**Vietnam**	-5.0%
USD/AUD	**Australia**	-14.7%	USD/PHP	**Philippines**	-4.6%
USD/IDR	**Indonesia**	-13.1%	USD/INR	**India**	-4.4%
USD/RUB	**Russia**	-12.8%	USD/CNY	**China**	-2.8%
USD/THB	**Thailand**	-8.9%	USD/JPY	**Japan**	-1.6%
USD/EUR	**Eurozone**	-8.2%	USD/GBP	**UK**	-1.0%
USD/KRW	**South Korea**	-7.3%	USD/CHF	**Switzerland**	+3.0%

Source: Bloomberg

Whilst some may see the volatility of recent months as a reason for caution we generally see panic in the markets an opportunity to pick up companies that we like at lower prices. All of the directors of the AFC Vietnam Fund used this summer as an opportunity to increase their personal holdings in our fund given the extremely favourable valuations. Our CEO Andreas Vogelsanger looks to have had the most optimal timing with the execution of his investment this month. The AFC Vietnam Fund should be seen as a well-managed way to get exposure to the long term Vietnamese growth story and 'buying dips' as initial or subsequent investor can potentially help your upside by keeping your entry price low.

The subscription deadline for this month will be on Thursday the 24th September, 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.