

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

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Despite some minor corrections, the month of May had some very inhomogeneous market developments. Some blue chips increased significantly, while the majority of the shares hardly moved. For the entire month the indices advanced by 3.4% in HCMC and 1.5% in Hanoi. The Vietnamese Dong lost about half a percent versus the USD, in line with the decline in other emerging market currencies. Similar to the quiet overall market, our fund NAV was at approximately USD 1,556 (+1.7%), based on internal calculations.

The VN30-Index, which consists of 30 liquid and large companies from both exchanges, showed a similar picture as the HCMC index, described in the last interim report. Recent political decisions for example on lower than expected liquidity requirements for banks, had a very positive impact on some stocks in this sector. The strong increase in the four weeks from mid-April to mid-May, was now followed by an equally strong correction, but the broader market hardly took notice of it. Volatility (= risk) of larger stocks, which are mostly driven by foreign in- or out-flows, are often higher than companies that do not appear on the foreign investors' radar screens.

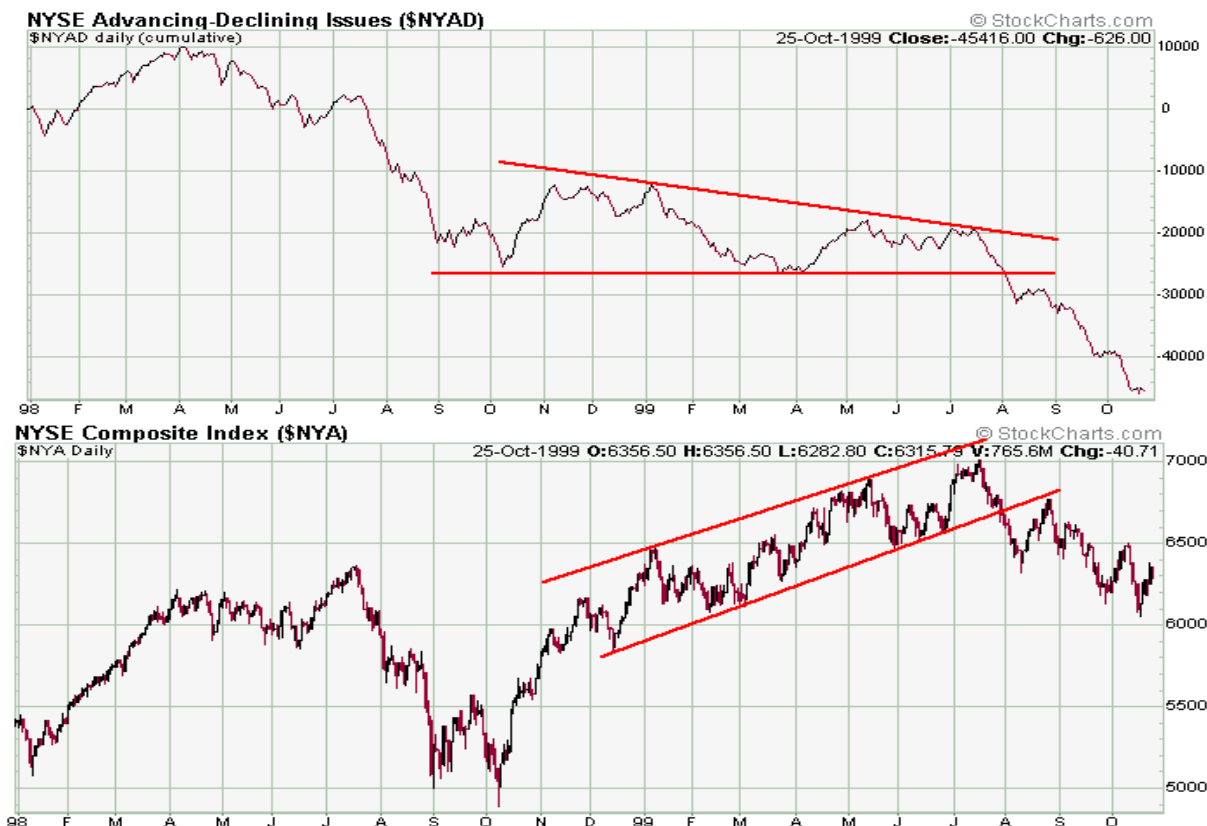


Source: VietCapital Securities

Contrary to the opinion of some experts, who believe that the upward movement in the stock market ends as soon as this increase starts spilling over to smaller firms, we argue the opposite. Only when local investors are beginning to trust in the long term recovery of the economy and stock market, without trying to follow or to anticipate the often erratic investor behaviour of foreign investment funds, only then we will see a continuation of the multi-year stock market upturn. Positive political and economic developments are the fuel for the stock market engine; even the fastest Ferrari needs somebody to continuously push the accelerator pedal (= buy orders) in order to advance. A stock market boom ends as after a while when it is no longer supported by a broad base - and not showing strength if 10% of the market participants (current foreign investor participation) push the index up for a few days or weeks. Such striking differences between the index and the broader market, in small markets such as Vietnam are rather unusual. In more developed markets such as the US, where divergences in the market breadth are almost always a precursor of a change of direction, such as in 2007 or as seen in the following chart before the bursting of the Internet bubble in 1999, are enormously important as medium-term indicators for stock market developments.

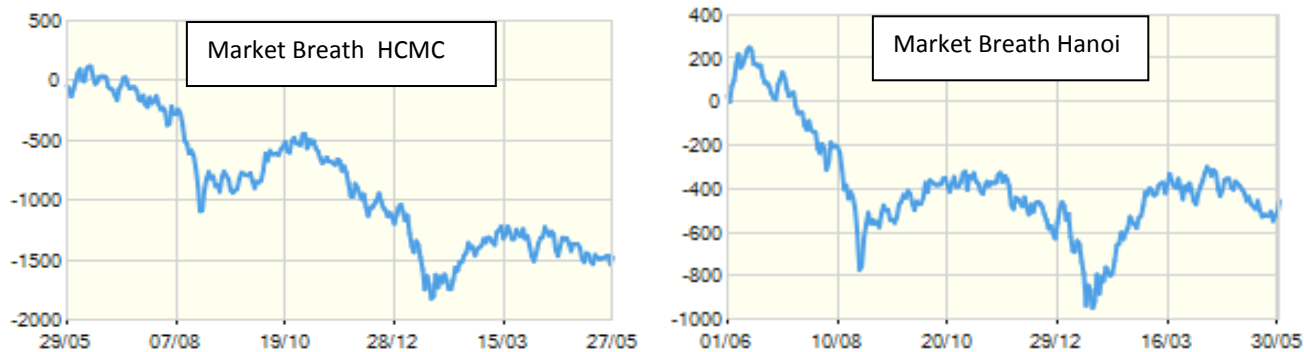
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Vietnam is currently rather in a consolidation phase as in a boom phase, and we therefore don't expect any negative consequence of the current market behaviour.



Source: Stockcharts.com, Leavitt Brothers

In our case - and hence we regularly refer to the market breadth (advance/decline ratio) in Vietnam – this ratio has even a higher impact on our performance. For example, on a positive day where roughly 700 shares are traded, and the index increase is only due to the largest 5-10 stocks and in balance there are more shares declining than advancing, we will hardly make any money with our diversified portfolio of 80 stocks, even if we are also invested in three of the largest companies. Unfortunately, we have to admit that the market breakout we were hoping for last month has not yet occurred but fortunately the technical picture still looks OK.



Source: stockbiz.vn

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The fact that we were still able to achieve a positive performance over the past few months despite a weaker market breadth, is due to the positive development of many of our holdings, where the expected re-rating slowly but surely continues. On the one hand, there are more and more companies from our portfolio which are gradually discovered and recommended by analysts, and on the other hand, it is the sudden increased interest of local investors who are looking to buy share blocks in our investments. A recent example of this happened last week, where we could have sold the entire position of our smallest company within seconds, as 50% of all outstanding shares (!) appeared as a buy order at market price in the trading system. Obviously there are other investors who think that a profitable, debt-free company, trading at 50% below book value looks attractive.

The economic recovery of Vietnam is now also reflected in lower risk premiums. With a trade surplus of USD 1.8 billion in the first four months, record investments and a fairly stable development of the currency (YTD +0.4% versus USD), fears which have led to uncertainties at the beginning of the year, allayed again. The current slight weakening of the currency is therefore rather a consequence of the recent expectations of a rate hike in the US. The periodically emerging realization that interest rates will not stay at zero forever, led to the now somewhat boring "risk-off" reversal, even with the new European Super Mario's economic doctrine, where countries will save more money the higher their debt is, due to negative interest rates. In other words, we now see a - necessary - countermovement, after the FED postponed in panic mode an imminent rate hike back in February, which led to an upswing in emerging markets and commodities while the USD fell. It is interesting and certainly positive to note that important industrial raw materials such as copper or oil didn't correct and that the Emerging Markets ETF EEM, which serves as a good indicator for investors' appetite for emerging markets, experienced only a healthy correction.



Source: Yahoo.com

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By now we would have loved to see a stronger stock market indeed, but from a perspective of our numerous new customers it is at least providing them with a still excellent entry point. We also observe a significant higher interest in Vietnam on international conferences and in the media than just a few months ago. We hope this spark will soon catch local investors who hopefully were positively affected by the increased media presence thanks to the recent visit of President Obama.

The subscription deadline for this month will be on the 24th June 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 31st May 2016

NAV	USD 1,556*
Since Inception	+55.6%*
Inception Date	23/12/2013

Monthly Performances AFC Vietnam Fund

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2013	USD												+2.37%	+2.37%
2014	USD	+8.75%	+4.50%	+2.18%	-4.65%	-0.32%	+1.45%	+1.86%	+5.49%	+3.87%	+2.83%	+2.50%	+0.60%	+32.50%
2015	USD	+0.44%	+1.76%	-0.96%	+1.93%	-0.48%	+0.06%	+0.22%	-4.57%	+1.18%	+6.90%	-1.82%	+0.25%	+4.62%
2016	USD	-0.10%	+3.30%	+1.28%	+3.17%	+1.7%*								+9.65%*

* 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.*

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