

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

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The Vietnamese stock market looks as attractive as hardly seen over the past 18 months. As expected, or rather hoped, since the beginning of this month we are seeing more interest in the broader market rather than just the handful of index names. The market however is approaching a technical resistance level, but the chances of breaking through is higher than ever before. In the first half of the month, Vietnam was able to advance further, in contrast to the developed and “safe” markets which saw increased volatility again. The indices of HCMC and Hanoi increased by 1.4% (HCMC) and 3.0% (Hanoi). Also the Vietnamese Dong was very stable month to date and our NAV rose by a further 2.0% to USD 1582 according to internal calculations.

As mentioned several times over the past few months, our confidence in the market is based on a scenario of a domestic driven upturn, which is necessary to end this by now rather annoying sideways market. In recent days there were numerous smaller stocks which performed quite strongly, and hence also Hanoi will probably soon do its final test of the technical resistance level.



Source: Viet Capital Securities

A confirmation of this trend is certainly the improved advance/decline ratio (finally!) and the growing UPCOM market, where an increased number of recently privatized companies are being listed and which are often neglected by domestic brokers and analysts. Meanwhile this “third market” reached the size of Hanoi and we are also investing in some of these companies.

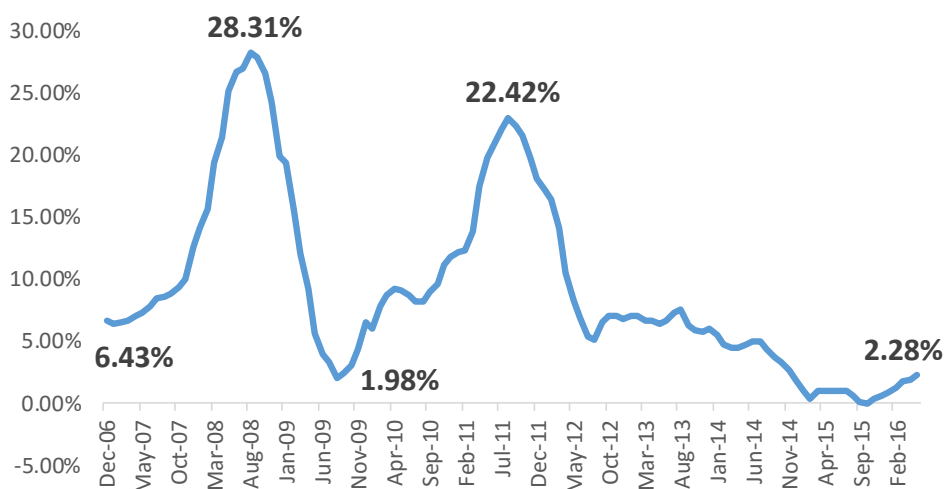


Source: Viet Capital Securities

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It was of little surprise that Vietnam's consumer confidence index increased again in the second quarter of this year. The macroeconomic picture continues to improve with for example a healthy FDI (Foreign Direct Investments) inflow, which increased to over USD 5bn since the beginning of the year. Once again, South Korea was responsible for over one third of the capital which was channelled mainly into the manufacturing sector. This had of course also a positive impact on Vietnam's PMI (Purchasing Managers Index) which also increased in May to the highest number in the last six months, indicating a strong improvement in the manufacturing sector. To a surprise of many analysts, the trade balance still shows a healthy surplus of around USD 1bn, but given the high FDI inflows, one has to expect that imports of machinery will increase substantially in the second half of the year, bringing the trade balance probably to a deficit of around USD 3.5bn to 4bn. The strong FDI inflow has also a positive impact on the Vietnamese Dong, which is slightly stronger versus the USD this year and is trading more and more to domestic dynamics, rather than being impacted by the Chinese Renminbi. With rising oil prices, we see an increase in inflation, which was at only at 0.6% end of last year, but now slowly but surely is creeping up and currently stands at 2.3%. This number will probably increase further by the end of the year to around 3.5% but this is not a real concern for the economy. We are also pleased to see that the new Prime Minister is sticking to his promised path of pro-growth economic reforms.

Inflation Vietnam



Source: SSI Securities

As you might have read in our recent newsletter, Vicente Nguyen is our first Vietnamese colleague and will join us as our new fund manager, based in Ho Chi Minh City, where we will soon open an office. More importantly, from the perspective of our investment philosophy, Vicente will be able to provide us with timely and efficient information in order to optimize our investment process and our fundamental-quantitative model. After having already worked the past 2 weeks together with him, it is already quite obvious how valuable this cooperation will be for us, but especially for our investors, in the future. Thanks to his excellent network and home advantage, he will be able to obtain information and news in a much more efficient manner than we were able to do so far. We will certainly incorporate his ideas and information in our existing investment decision process and run it through our model and invest accordingly. Hence, our current investment style remains totally unchanged, but our risk reward ratio is expected to improve further.

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The number of our investments recently increased, mainly due to some profit takings in certain names without having sold them completely, and the addition of a few new positions which we are building up slowly over time, due to the foreign ownership restrictions.

The softer market which we are seeing over the past few days has to be considered as healthy, especially after the rise in recent weeks and this also provides us with an opportunity to invest part of the recent fund inflows at an attractive level, before the market hopefully moves up sharply in the second half of the year.

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 15st June 2016

NAV	USD 1,582*
Since Inception	+58.2%*
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%	+1.40%	+2%*							+11.5%*

*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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