

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	Vincente Nguyen
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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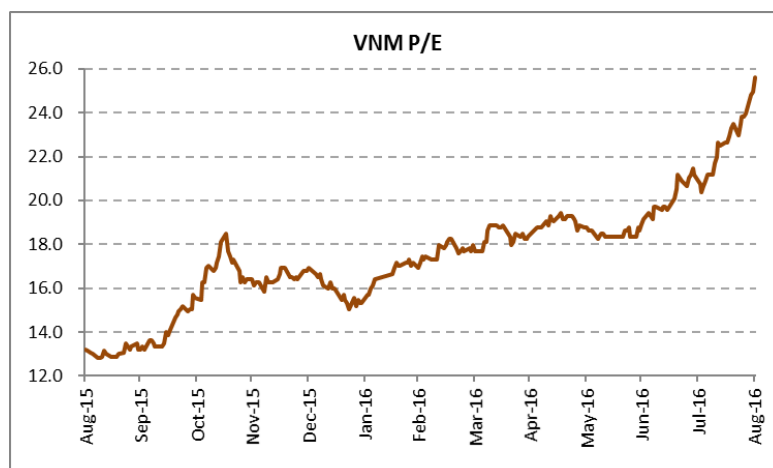
In the final weeks of August, we saw low volatility and minor index changes. Investors are still waiting for the ETF rebalancing which will take place on September 16. Like in July, the market was supported strongly by share price advances in Vinamilk and Vietcombank, which were equivalent to an index gain of 2.8%. With other stocks still in consolidation mood, the indices in Ho Chi Minh City and Hanoi were up 3.4% and 0.8% for the month of August. According to internal calculations, our NAV was little changed versus last month and stands now at an estimated NAV of USD 1,679 (+0.1%)

Market developments

The Index hit a 5 year high on July 14 at 681.75 before starting to correct in the first week of August to a short term bottom of 622.14. Since then we saw a recovery of the market which was influenced heavily by the gains of Vinamilk (VNM). After the announcement to abolish the foreign ownership limit of VNM about three months ago, the stock increased sharply. Together with the second heavyweight Vietcombank the current weighting is approaching 30% already and therefore had a disproportional effect on the performance of the Ho Chi Minh City index (VN-Index) and as a result it did not represent the performance of the broader market and without those two stocks the valuation would be more than 20% lower.

	VN-Index	VN-Index ex VNM	HNX-Index
% 1M	3.43%	0.66%	0.80%
% 3M	9.09%	5.44%	3.00%
% YTD	16.51%	13.55%	5.53%
% YOY	19.46%	15.49%	9.73%

This explains why 1M and 3M performance of VN-Index is significantly different than the VN-index ex VNM. However, in our point of view, VNM is now trading on par with other companies worldwide in this sector and much less attractive after jumping 14.5% in July and 21.3% in August in anticipation of heavy buying by ETFs on their upcoming September rebalancing. It is now trading at 25.6x trailing earnings and pushing up the average P/E on the VN-Index to 16x as compared to only 10.7x on the Hanoi index (HNX-Index). Meanwhile the average P/E of our fund portfolio is still only around 9. Of course we stick to our long-term investment philosophy to invest in a broadly diversified portfolio of undervalued stocks, rather than overweight a single heavy weight index stock although we do still hold a smaller position in VNM for quite some time.



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Economy

Regarding the macroeconomic story in Vietnam, the country continues to attract strong FDI inflows and shows an improvement in the trade balance. In August, FDI, new and additional registrations, hit USD 14.4 billion, an increase of 7.8% compared to the same period last year. FDI disbursement reached USD 9.8 billion which also helps to improve the country's foreign reserves. According to a recent article by Financial Times, Vietnam ranks 1st in Asia in terms of FDI quality. New and additional FDI registrations continue to focus on industrial production with more than 70% of total capital, which is expected to boost industrial production in the coming years.

The country's trade balance has improved a lot in the first 8 months, hitting a surplus of USD 2.5 billion compared to a deficit of USD 3.6 billion last year. The better trade balance and strong FDI inflows also result in a very stable Vietnamese Dong. Vietnam is currently one of the very few countries with increasing exports in Asia. In total, the export hit USD 112.2 billion in the first 8 months, growing by 5.5% compared to the same period last year. In August, CPI increased slightly to 1.91% compared to 1.82% in July. In the CPI basket, educational prices increased most by 0.47% against July because of the start of the new school year in August.

Macroeconomic Indicators				
	2013	2014	2015	Aug-2016
GDP	5.42%	5.98%	6.68%	5.52%
Industrial production (YoY)	5.9%	7.6%	9.8%	6.9%
FDI registration (USD bn)	21.6	20.2	22.8	14.4
FDI disbursement (USD bn)	11.5	12.4	14.5	9.8
Exports (USD bn)	132.2	150.0	162.4	112.2
Imports (USD bn)	131.3	148.0	165.6	109.7
Trade balance (USD bn)	0.9	2	-3.2	2.5
Retail sales (YoY)	12.60%	10.60%	9.50%	9.30%
CPI (YoY)	6.03%	1.86%	1.34%	1.91%
VND	21,125	21,405	22,540	22,340
Credit growth (YoY)	12.5%	14.0%	17.3%	8.5%
Foreign reserves (USD bn)	32	36	36	38

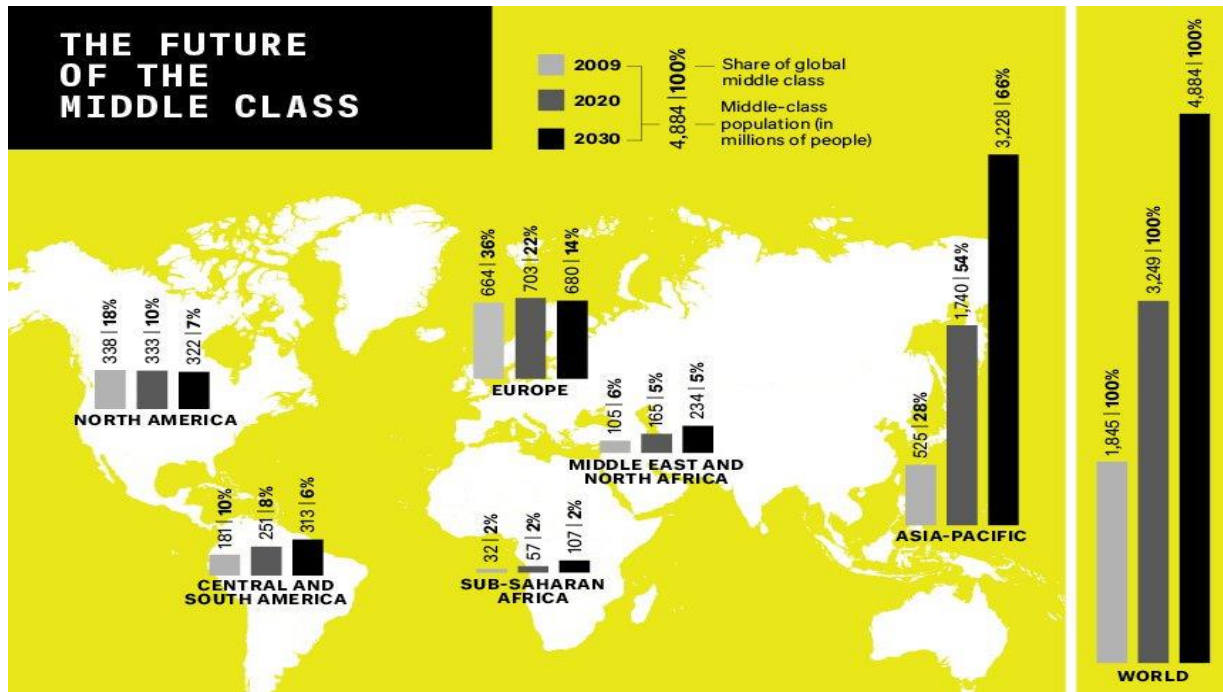
Note: Credit growth as of July 2016; Foreign reserves as of June 2016

Source: AFC research, SSI

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Other developments

While the world is – like every single month of the past two years – still waiting for any hint of a possible interest rate hike in the US from close to zero, we see a further stabilization in emerging market economies. It seems to be already a long time back that investors and analysts were fearing a total collapse of the economies at former investor darlings like Brazil, China or Russia. With better than feared growth numbers in Brazil or Russia and relatively strong growth in countries like Thailand, Indonesia or Philippines, the pace in the economic upwards cycle in South East Asia could also accelerate. On a long term basis one has to remind themselves anyway, where the future growth and investment story is to be found.



Source: www.theatlantic.com

Subscription

The subscription deadline for this month will be the 26th September and if you would like any assistance with the investment process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

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Estimated NAV as of 31st Aug 2016

NAV	USD 1,679*
Since Inception	+67.9%*
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%	+4.97%	+3.00%	*+0.1%					+18.3%*

* 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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