

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	Vicente 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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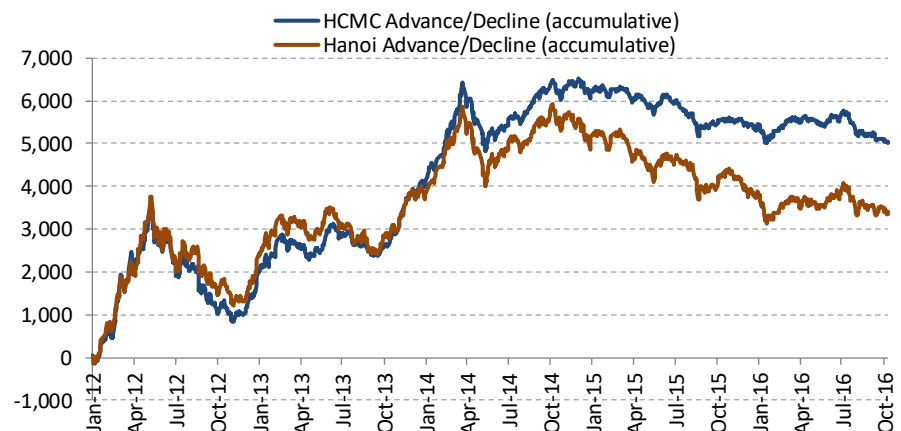


Like many other markets worldwide, Vietnam was unable to find a clear direction in the first 2 weeks of October. After recent gains, blue chips stocks consolidated while the broader market moved sideways. The indices in HCMC and Hanoi were up +0.2% and +0.5% month to date respectively, while our fund was slightly lower with a NAV of approximately USD 1,669 (-0.7%), according to internal calculations.

Market developments

Periods of lower volatility are not uncommon and are in a way quite healthy. It lowers the overall risk and shows that the market is not overheating as a result of short term speculation. On the other hand, the lack of retail punters / investors is the reason why the broader market and many of our stocks are moving sideways at the moment. Over the past three months the market breath (advance / decline ratio) was not only unable to breakout on the upside as we were hoping for, but it dropped to the lows we saw at the beginning of the year.

Market Breath Jan 2012 – Oct 2016

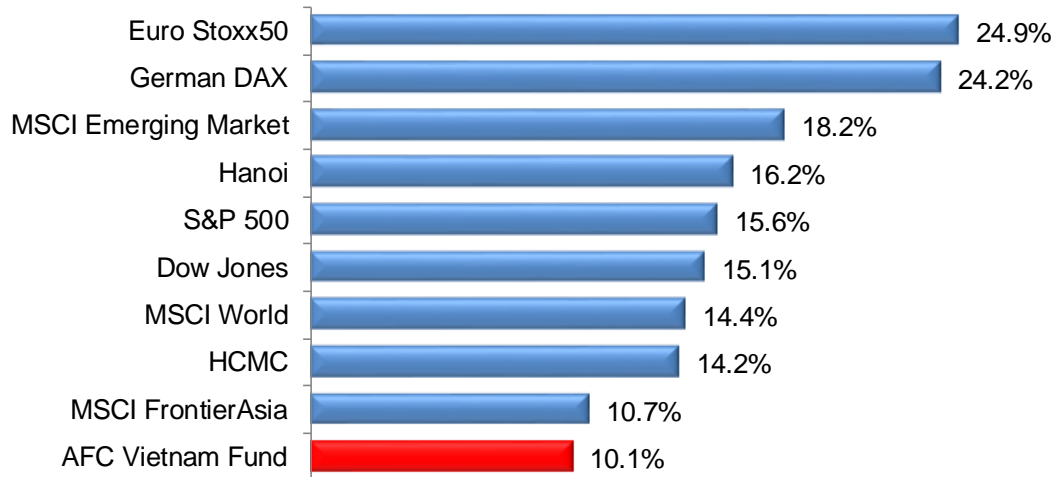


Source: Bloomberg

We therefore can't complain about our relatively small fund performance over the summer period, which was only possible due to our broad diversification. But as we have seen in the past, as soon as there is a positive change in the market sentiment, our fund starts rallying much faster than the broader market, mainly due to the fact that small- and mid-caps are becoming very popular in times of improved liquidity. Almost more important is our fund volatility, which is significantly lower than most developed and emerging markets, mainly due to our well diversified portfolio.

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360 days Historic Volatility



Source: Bloomberg

The technical market picture still looks promising, as the blue chip index is holding on to its gains after breaking out of the 2-year consolidation pattern.

HCMC Index



Source: Viet Capital Securities

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Hanoi has about the same number of stocks as the main index in HCMC, but is only about a quarter in terms of market cap. In contrast to HCMC, it hasn't performed yet and still trades at the same levels of 2 years ago.

Hanoi Index



Source: Viet Capital Securities

The still small, but up and coming UPCOM market, looks rather promising after a few months of consolidation. Many privatized stocks will first list on UPCOM and therefore the interest in this market is rapidly gaining in popularity.

UPCOM Index

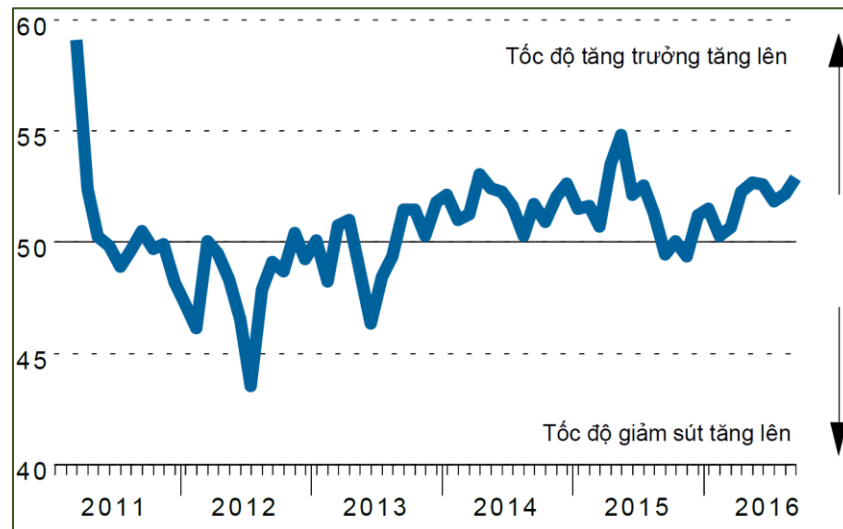


Source: Viet Capital Securities

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Economy

Manufacturing performance improved in September and the PMI reached a new 16-month high of 52.9 after a short term bottom of 49.4 in November 2015. This is an important factor to drive future GDP growth.



Source: Nikkei, IHS Markit PMI Release

The impact on Samsung's decision to stop the production of the Galaxy Note 7 will have some short term impact on production and trade figures which is hard to quantify at this moment. However, one can expect that they will either relaunch the same model at a later point or more likely they will put their full focus on their soon to be launched new flagship smartphone, the Galaxy S8 which is expected to come out early 2017.

Other developments

There are mainly 3 important new developments, which could prove to be an important trigger for the Vietnamese stock market to rapidly gain in popularity and hence to attract new investors and money inflow. Vietnam is getting ready to launch its derivative market and will start with issuing covered warrants beginning of 2017. It also allows some brokers to act as a market maker on the Hanoi stock exchanges, starting early 2017. Please find below some more details about these 3 important developments.

Hanoi will have "market makers" in 2017

On 7th October, the State Securities Commission hosted a conference in Hanoi to talk about "market makers". Hereby, brokers which meet all required standards can register to act as a "market maker". This improvement will help to increase market liquidity in Hanoi and hence increase its attractiveness. The Hanoi Stock Exchange is currently finalizing all regulations and guidelines which will become effective with the planned launch in early 2017.

Derivative market guideline will be launched in December

At the annual meeting of Hanoi Stock Exchange on 7th October, the chairman of the Hanoi Stock Exchange announced that the exchange will complete its guideline and regulation on derivative markets in December. Official launch is also expected for early 2017. This event will mark a significant turning point for the financial markets in Vietnam. As seen in other markets around the world, as soon as derivatives are successfully introduced, many new investors are entering this market.

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Covered Warrants in Vietnam

The Ministry of Finance has issued Circular on the sale and trading of covered warrants which will be implemented as of 1st January 2017. Warrants are derivatives issued by securities companies giving the holder the right to buy or sell shares at a specific price (exercise price) before expiration.

The Hanoi Stock Exchange is actively implementing new plans regarding the “equitizations” of SOE’s (state owned enterprises) through stock exchanges and to be traded on UPCoM within 15 days. This is also an important step of the market development, which will come into effect on 1st November 2016. From this date onwards, share auctions through stock exchanges will automatically be put for registration on the UPCoM system within 15 days. This amendment is ground breaking in that the timespan between equitization and trading on trading venue has hitherto been a sore point for wider participation in the equitization process. This move will also facilitate the development of the UPCoM market.

With all these decisions after years of talk, we finally see a new exciting era approaching for the Vietnamese stock market. While the change in the foreign ownership law was mainly affecting foreign owned blue chips, we expect a new class of local investors entering the market which should help interest in smaller companies again.

The subscription deadline for this month will be on the 25th October and if you would like any assistance with the investment process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

Estimated NAV as of 15th October 2016

NAV	USD 1,669*
Since Inception	+66.9%*
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%	+3.0%	+0.13%	+0.11%	-0.7%*			+17.6%*

*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.*

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