



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
With 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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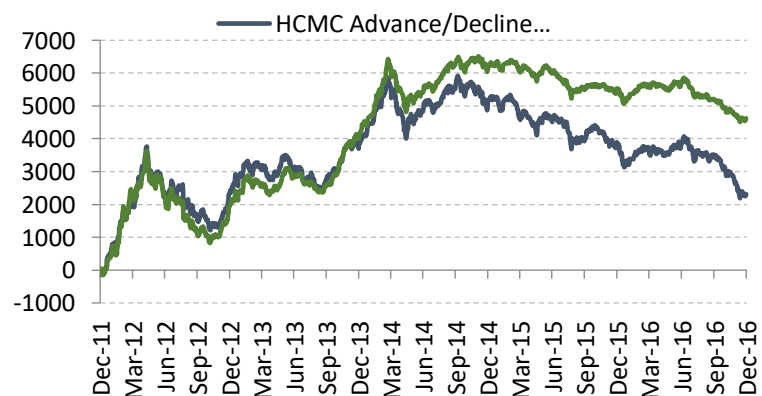
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The past few weeks have proven to be very difficult. As most other currencies around the globe, the Vietnamese currency lost around 2% against the US dollar since Trump's victory and is trading on its upper limit for some time now. Despite the listing effect on the index from Sabeco, the Ho Chi Minh City Index was little changed with -0.4% while the index in Hanoi declined by -1.0%. With foreign selling affecting some of our holdings, the NAV of our fund was USD 1,632 (-2.0%), according to internal calculations.

Market developments

2016 was an interesting year for emerging and frontier markets, such as for example Vietnam. Despite a positive turning point of the relative performance to developed markets earlier in the year and well performing Vietnamese shares in general in the first six months, the stock market went into a long period of consolidation in the second half of the year. But if we take into account two isolated special situations which impacted the main index in HCMC by about 10%, then 2016 was a rather unimpressive year without any significant gains. The broader market was even negative, with Hanoi, where mostly smaller stocks are listed, was down 0.9% for the year in USD terms as the advance / decline ratio on both exchanges showed a strong deterioration, which means that only a limited number of stocks gained while the majority lost ground. After Trump's victory, foreigners were selling more than USD 100m within a few weeks and we saw some forced selling in many stocks, including some of our holdings, which brought especially small caps into extreme oversold territory, which is usually a very good sign for an imminent upturn. Over the last few days we saw this selling already fading and foreigners were already net buyers for the first time in weeks. If this will continue, we are quite confident that we will see a strong recovery in 2017.



Source: Viet Capital Securities / Bloomberg

AFC VIETNAM FUND UPDATE

Despite the difficult market environment, we were able to achieve a solid return for our investors for the third consecutive year. Like last year, due to the strong USD, the performance is even better for our non-USD investors as this overview shows:

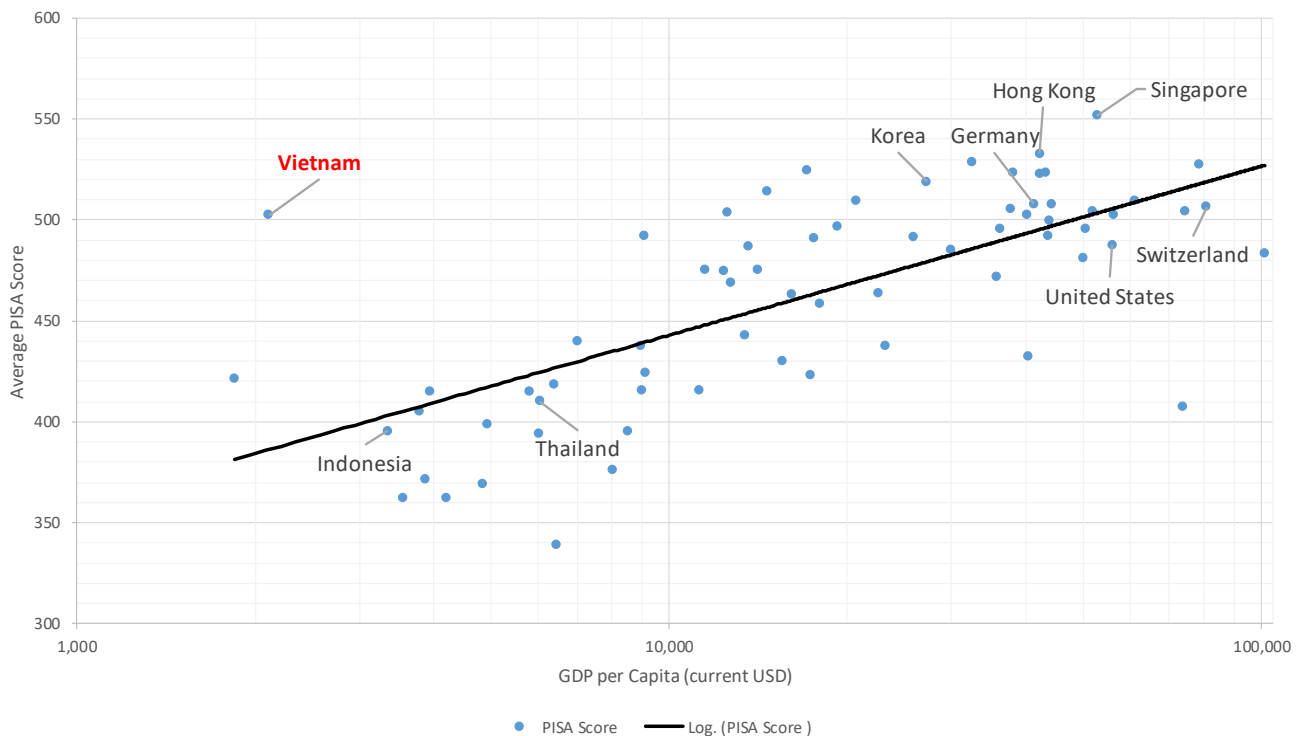
AFC Vietnam performance 2016 (based on internal calculations):

USD	+15.0%
VND	+16.6%
CHF	+17.1%
€	+18.6%
GBP	+38.1%

While most hedge funds were having a hard time to raise money in 2016, we saw continued strong interest from investors and almost doubled our Assets under Management to around USD 30m by the end of the year.

The fundamental story in Vietnam has not changed with mostly encouraging economic numbers for 2016. Even with TPP not happening as planned, Vietnam and the region are actively working on numerous trade pacts as previously reported. The positive economic development and rising income levels should lead to an increased interest in the local stock market as more brand names are being listed. The stock market offers one of the few legal ways to make investments, or better said, one of the few legal ways to gamble, as we can regularly observe, based on the often erratic movements in single stock prices.

Pisa Score in 2015: Vietnam - The Outlier



Source: OECD's PISA report 2015

AFC VIETNAM FUND UPDATE

The results show that countries with a higher GDP per capita seem to have a relatively higher PISA score, even though correlation does not imply causation. GDP per capita only reflects the potential of the country to divert financial resources towards education, and not how much is actually allocated to education.

Vietnam is an outlier with 18th highest score out of the 72 countries, and a relatively low GDP per capita of only around USD 2,200. This compares very favorably to other ASEAN countries such as for example Thailand or Indonesia. Vietnam has a much higher score than many of its regional neighbors, and even some of the wealthy European countries such as the UK, Luxembourg and France. The reasons for Vietnam's high score is probably due to sizeable government and private investments in education and the strong discipline of students and the uniformity of classroom professionalism which can be found across the whole country.

Students in Vietnam are often full of energy and very dynamic, eager to learn as much as possible. Knowledge in their eyes is the only way out to achieve a better living standard, given that Vietnam still can be considered as a relatively poor country. This is of course a powerful driver for a country which is among the fastest growing economies in the world.

Vietnam small- & midcaps

The investment strategy of AFC Vietnam Fund is to focus on undervalued companies, including many small and medium cap stocks, which offer superior valuations relative to other shares within the same sector, like for example a stronger balance sheet, lower P/E ratios (usually around or below 10), discount to book value or stronger earnings growth. We are not only investing in those stocks because of low valuations but also because they often have hidden assets, such as e.g. properties. As we mentioned in the December interim report, we visited many of our holdings.

These meetings confirmed our view, that many of these companies, especially in the small cap field, have hidden values which are often much higher than their market capitalization. Despite being profitable and having strong balance sheet, they are frequently trading at only half their publicized book value. Some of the properties they own are often valued next to zero in the balance sheet while their estimated market value actually represents multiple times of their total market cap.

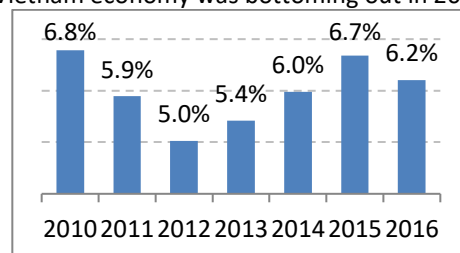
We are confident that we will continue to find such deeply undervalued companies, which will eventually reflect in the fund performance and hence benefit our investors.

Economy

Vietnam's economy expands at 6.2% in 2016

Vietnam's economy grew 6.2% in 2016 according to the General Statistics Office. Although less than the government's target of 6.7% and the 2015 growth rate of 6.68%, but still higher than the four years' prior (2011: +5.89%, 2012: +5.03%, 2013: +5.42%, 2014: +5.98%).

Vietnam economy was bottoming out in 2012



Source: GSO

AFC VIETNAM FUND UPDATE

The government managed to keep inflation below 5% in 2016. According to the General Statistics Office, 2016 inflation was 4.74% YoY with healthcare and education increasing most, 55.7% YoY and 10.8% YoY, respectively.

Domestic consumption: Retail sales of goods and services reached USD 150.6 billion, up 10.2% YoY vs 9.8% recorded in 2015.

Industrial production: The index of industrial production increased 7.5% YoY vs an increase of 9.8% last year. The manufacturing and processing sector accelerated at a faster rate of 11.2% YoY, while the mining sector declined 5.9% YoY, subtracting 1.3 percentage points from overall growth.

Trade: total export revenue for the year increased 8.6% YoY to USD 175.9 billion while import revenue grew at a lower rate of 4.6% YoY to USD 173.3 billion, leading to a trade surplus of USD 2.6 billion.

Foreign investment: disbursed FDI hit a record high and rose 9.0% YoY to USD 15.8 billion, while registered and additional FDI slowed 8.1% to USD 20.95 billion. Nevertheless, Investment Law 2014 has encouraged foreign investors to pour USD 3.42 billion via capital contributions and share purchases this year. Thus, foreign investment has totaled USD 24.4 billion.

Foreign reserves hit the record high of USD 41 billion by the end of 2016. This was mainly due to the increasing disbursed FDI, remittances, trade surplus and capital inflow.

Macroeconomic Indicators				
	2013	2014	2015	2016
GDP	5.42%	5.98%	6.68%	6.21%
Industrial production (YoY)	5.9%	7.6%	9.8%	7.5%
FDI registration (USD bn)	21.6	20.2	22.8	20.95
FDI disbursement (USD bn)	11.5	12.4	14.5	15.8
Exports (USD bn)	132.2	150.0	162.4	175.9
Imports (USD bn)	131.3	148.0	165.6	173.3
Trade balance (USD bn)	0.9	2	-3.2	2.6
Retail sales (YoY)	12.60%	10.60%	9.50%	10.20%
CPI (YoY)	6.03%	1.86%	1.34%	4.74%
VND	21,125	21,405	22,540	22,790
Credit growth (YoY)	12.5%	14.0%	17.3%	16.5%
Foreign reserves (USD bn)	32	36	36	41

Source: AFC research, SSI, GSO, SBV, VCB

AFC VIETNAM FUND UPDATE

Other developments - Vietnam market cap increased strongly

Despite the mute performance of the overall stock market, 2016 was quite a special year for Vietnam. A lot of state owned companies were listed on the market which helped to increase the market cap substantially. At the beginning of 2016, the total market cap of Vietnam was about USD 58.9 billion (HCMC, Hanoi and UPCOM). This number surged to USD 75.9 billion by the end of 2016, growing at 28.8%. Some of these large listings were for example Sabeco (USD 5.6 billion), Habeco (USD 1.3 billion), Vietnam Aviation Corporation (USD 4.7 billion) and Quang Ngai Sugar (USD 0.8 billion). This trend is expected to continue and other companies with more than a USD billion market cap will be listed soon, such as Vietnam Airlines, Vietjet Air or Dung Quat oil refinery.

Subscription

The subscription deadline for this month will be the 23rd January 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 31st December 2016

NAV	USD 1,632*
Since Inception	+63.2%*
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%	+4.97%	+3.0%	+0.13%	+0.11%	-1.8%	+0.88%	-2.0%*	+15%*

*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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