

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	Ernst & Young, Hong Kong
Administrator	Custom House, Singapore
Legal Advisor	Ogier, Hong Kong
ISIN	KYG0133A1673

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The market was little changed in the first two weeks of March. Individual stock price movements in the blue-chip sector were dictated primarily by expectations and announcements of the upcoming quarterly rebalancing by ETF's. The broader market was also little changed while market breath was losing momentum over the past couple of days. The indices in HCMC and Hanoi were +0.5% and +0.7% respectively. According to internal calculations the NAV of our fund was slightly down at USD 1,670 (-0.9%).

Market developments

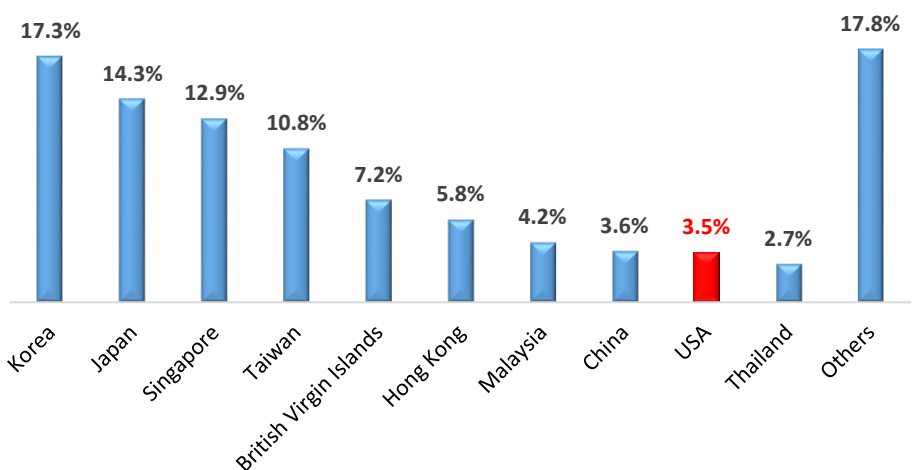
Vietnam will most likely NOT be affected by “Trumponomics”

If we look how “Trumponomics” will affect Asia, one can probably assume that the US will take a tougher stance mainly against China, but what about the other Asian countries and what does a “tougher stance” mean?

We think Trump will take certain measurements to make life difficult especially for US companies producing abroad and then exporting these goods to the US, similar to Ford, Carrier or Apple. He will probably target countries where the US has a high trading deficit and certain sectors / key product groups.

Let's first take a look at the cumulative foreign direct investments (FDI) into Vietnam.

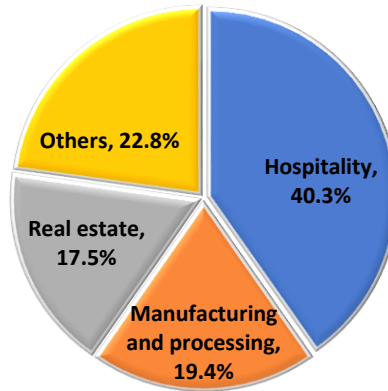
Cumulative Vietnam FDI as of Dec 2016



Source: VietCapital

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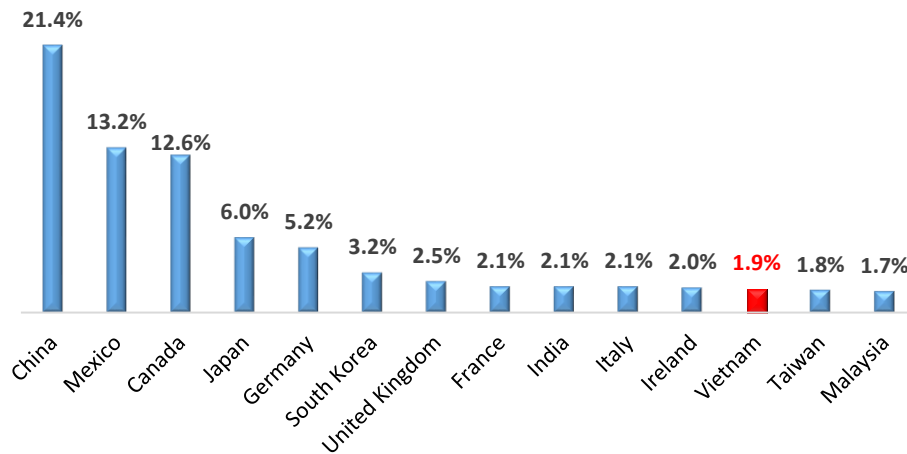
US FDI in Vietnam by Sector



Source: VietCapital

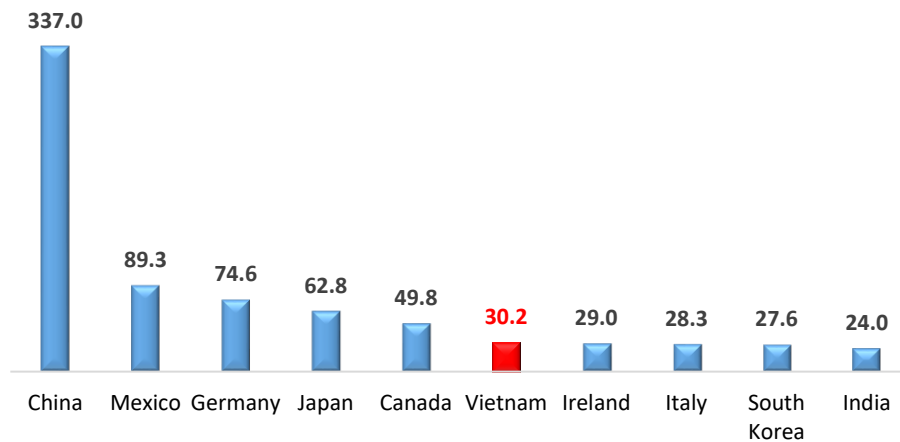
As you can see from the numbers above, the US only accounted for 3.5% of total FDI in Vietnam. But how relevant are Vietnamese exports to the US and how big is the trade deficit between the US and Vietnam?

US Imports by Country - 2016



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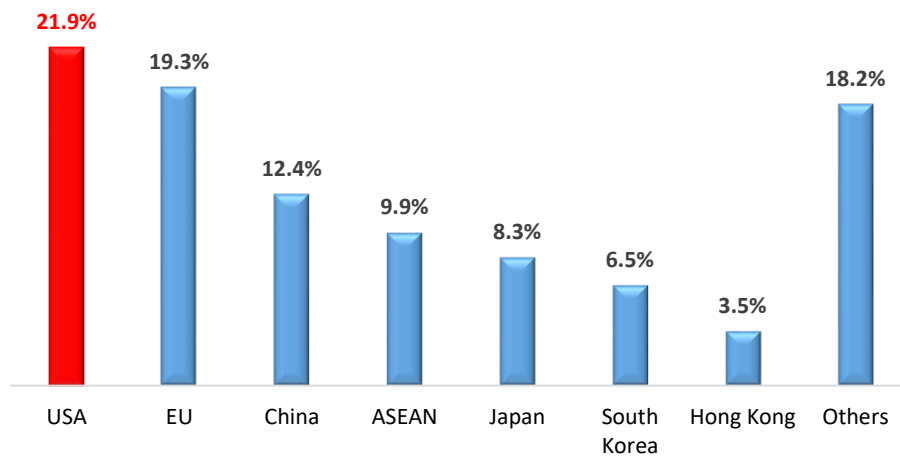
US Trade Deficit by Country (USD bn) - 2015



Source: US Census Bureau / Bloomberg

Again, Vietnam accounts only for 1.9% of total US imports while the trade deficit is nowhere close to the numbers of China and Mexico. But for Vietnam, the US is an important market.

Vietnam Export Markets - 2016

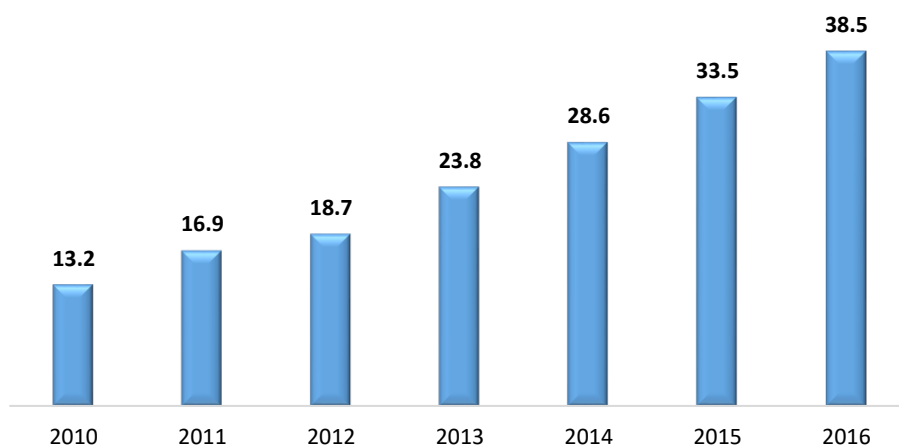


Source: GSO

It is actually Vietnam's largest export market with 21.9% of total exports and growing fast...

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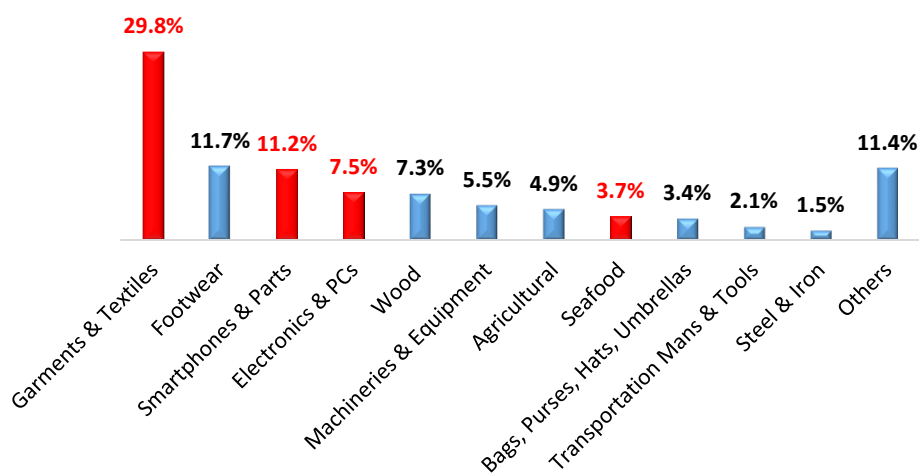
Vietnam's Export to US (USD bn)



Source: Customs Office

But what exactly is Vietnam exporting to the US?

Vietnam Exports to US (USD bn) - 2016

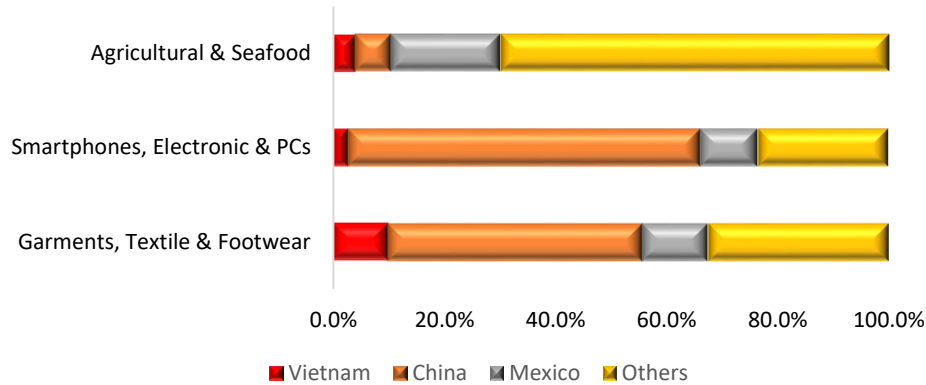


Source: Customs Office

It is assumed that the Trump administration will be focusing mainly on 3 specific product groups, such as - Smartphones, Electronic & PCs – Garments, Textile & Footwear – Agricultural & Seafood.

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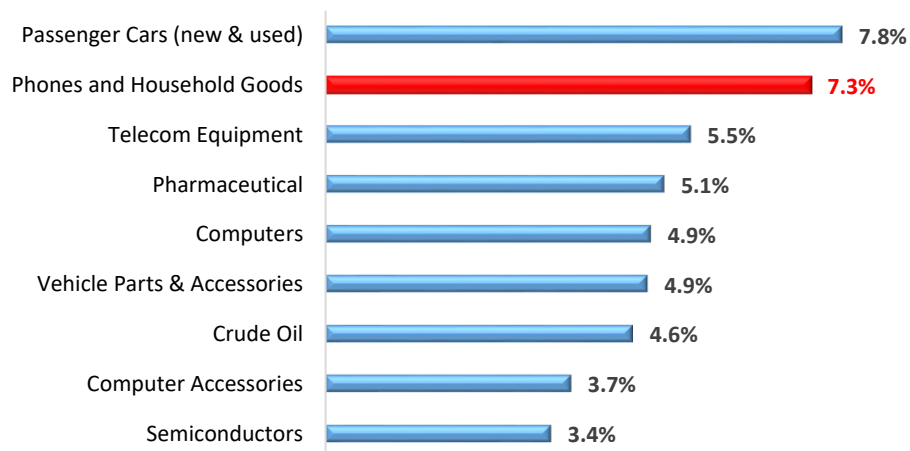
US Import Contribution of Key Products - 2015



Source: US Census

As you can see from the table above, Vietnam's contribution of these 3 key product groups is still relatively small. We were very pleasantly surprised when we saw an announcement of a Chinese polyester and fiber manufacturer to open a plant in Tay Ninh in February, making China the second largest FDI investor after Singapore in February! Maybe Vietnam will become a net beneficiary of all this US-China tensions after all?

US Imports by Main Products - 2016



Source: US Census Bureau

We do think that mobile phones could be targeted by the Trump administration, but this will be a much bigger issue for China than Vietnam, since Apple is a US company producing in China and exporting from there to the US. In Vietnam, we have of course Samsung producing almost all their mobile phones in Vietnam, but given that Samsung is a Korean company and that their market share in the US is only 25.5% in comparison to Apple with around 62%, Vietnam will probably not be affected.

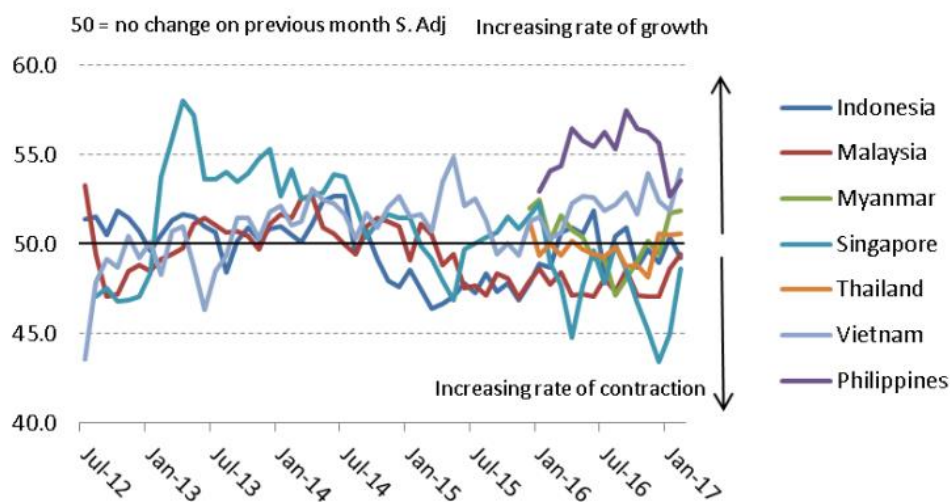
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Irrespective of the outcome of “Trumponomics”, our portfolio is very well positioned. Only 4 out of a total of around 80 companies are in one of these three sectors, representing only about 5% of our total portfolio. Those 4 companies are currently trading between 5.8x and 10x earnings and offer an average dividend yield of 11%. We are therefore not worried at all, whatever the outcome from the impending “Trumponomics” will be.

Economy

Vietnam PMI index surged to a 21 months’ record high in February to 54.2 from 51.9 in the previous month, according to Nikkei, IHS Markit. Vietnam is now leading the pack among ASEAN countries such as Thailand (50.6), Malaysia (49.9), Singapore (48.6) and the Philippines (53.6). This impressive outcome was mainly due to increase of new orders and improving business environment.

National Manufacturing PMI



Sources: Nikkei, IHS Markit

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Macroeconomic Indicators					
	2013	2014	2015	2016	Feb-17
GDP	5.42%	5.98%	6.68%	6.21%	6.21%
Industrial production (YoY)	5.90%	7.60%	9.80%	7.50%	2.40%
FDI disbursement (USD bn)	11.5	12.4	14.5	15.8	1.55
Exports (USD bn)	132.2	150	162.4	176.6	27.3
Imports (USD bn)	131.3	148	165.6	174.1	27.4
Trade balance (USD bn)	0.9	2	-3.2	2.52	-0.10
Retail sales (YoY)	12.60%	10.60%	9.50%	10.20%	8.70%
CPI (YoY)	6.03%	1.86%	1.34%	4.74%	5.02%
VND	21,125	21,405	22,540	22,600	22,790
Credit growth (YoY)	12.50%	14.00%	17.30%	16.50%	2.18%
Foreign reserves (USD bn)	32	36	36	41	41

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

Domestic consumption: Though retail sales rose only 5.6% YoY in 2M 2017, the lowest rate in four years, strong consumer confidence, which accelerated to rank fifth in the world, should underpin domestic demand growth.

Industrial production: IIP will continue to recover in March, supported by strong PMI of Vietnam and neighbors. The index of industrial production (IIP) rose 15.2% YoY in February, mainly driven by the manufacturing sector's strong growth of 22.4% YoY. However, decreasing crude oil output volume slowed IIP growth for 2M 2017 compared to the same period last year.

State budget: The government is showing signs it can keep the deficit (excluding principal repayment) at 3.5% of GDP in 2017. Vietnam's fiscal balance was in a surplus of VND10 trillion (USD438.6 million) in 2M 2017. The recovery of oil prices helped improve state revenues while public investment grew 30% YoY in 2M 2017.

Trade: Samsung Display's USD2.5 billion mega project will underpin growth of machinery and equipment imports. Export revenue increased 15.4% YoY to USD27.3 billion in 2M 2017 (vs +2.9% in 2M 2016), helping ease concerns over global market uncertainties. Meanwhile, import revenues surged 20% YoY to USD27.4 billion in 2M 2017 (-6.6% in 2M 2016).

FDI: Total registered FDI, including share purchases, increased 15.1% YoY, while disbursed FDI rose 3.3% YoY, still growing but at lower rates than 2M 2016.

Inflation: We expect softer inflation due to lower prices of gas and gasoline. Vietnam's February CPI rose 0.23% MoM and 5.02% YoY, mainly driven by higher prices in the housing & construction materials and transportation categories. Monthly inflation for February softened from last month (0.46% MoM) because of the transportation group's lower inflation and weaker consumption demand after the Tet holiday.

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Subscription

The subscription deadline for this month will be the 27th March 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 14th March 2017

NAV	USD 1,670*
Since Inception	+67%*
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%	-1.83%	+0.88%	-1.76%	+15.29%
2017	USD	+1.90%	+1.10%	-0.9%*										+2.1%*

*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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