

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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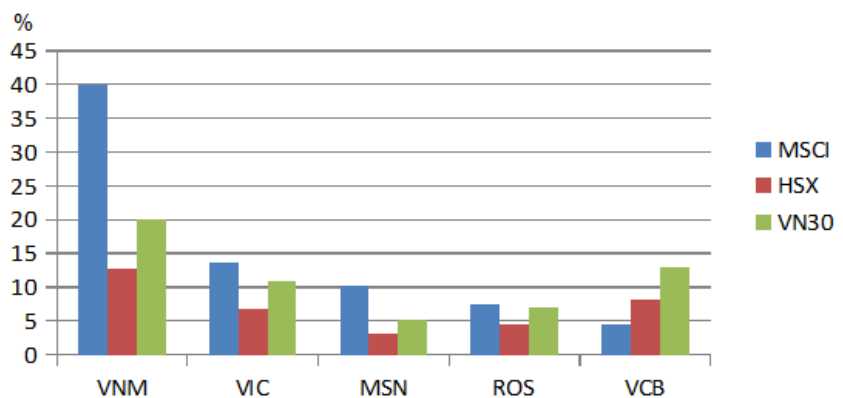


The broader market was slightly lower in the first two weeks of April. Awaiting first quarter 2017 company results, stocks consolidated across the board with both indices declining slightly; HCMC -0.6% and Hanoi -1.4% in local currency terms. With most earnings announcements in our holdings already out, the NAV of our fund increased by approximately +0.7% to USD 1,730, according to internal calculations.

Market developments

People who are investing into Vietnam are usually following the so-called benchmark index HOSE (Ho Chi Minh City index), but we are always surprised about how many new and potential investors are considering to buy ETF's in Vietnam. As explained many times before, ETF's don't work in Vietnam since they are unable to track the index and hence vastly underperform the market. This is mainly due to an already fully used foreign ownership quota in some of the blue chips, but also due to the inability to add newly listed index stocks right from the listing day because they often trade "limit-up" for the first few days without any meaningful turnover. Some ETF investment managers are creating their own benchmarks which they are then able to track, but this of course doesn't make sense if their benchmark isn't reflecting the market. Other well respected companies, such as for example MSCI, are defining their Vietnam index in a more realistic manner, but given their extreme overweight in a few stocks, it wouldn't be ideal to use this index as a benchmark.

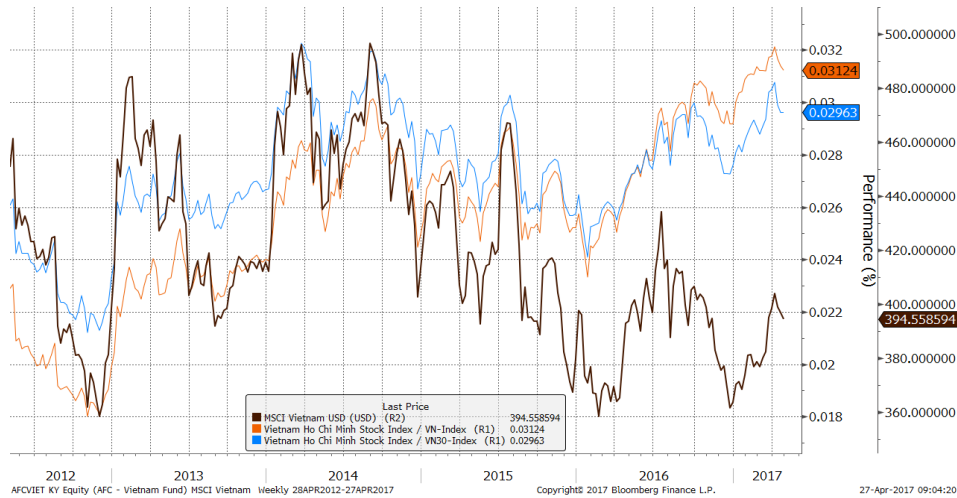
Vietnam indices weightings



Source: MSCI, Bloomberg, AFC

For those reasons, there are many different Vietnam indices which are trying to paint an accurate picture of the Vietnamese market, but given that their long-term performance poorly correlated with the HOSE it doesn't make much sense to focus on them.

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5-year performance: MSCI Vietnam - VNI - VN30; Source: Bloomberg

Due to significant differences in the weightings of the largest blue chips in these various indices, the index performance is of course also widely different. We are therefore not attempting to track any of these indices and are instead focused on investing into stocks which we consider undervalued, while their market capitalizations play only a minor role. The only index which we moderately follow is the Hanoi Index (HNX) since more than 50% of our holdings are listed there. Unfortunately, this index is also flawed because of its high weighting of only a handful of stocks, and hence doesn't provide a broad enough market picture. For example, the strong performance of banking stocks earlier this year followed by a sharp correction in recent weeks was clearly visible in the overall performance of the index.



Hanoi Index; Source: Viet Capital Securities

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Nevertheless, from a technical point of view, there is a good chance that the broader market will finally break out on the upside of its long-lasting sideways movement.

This view is supported by the already published earnings announcements for the first quarter of 2017. With over two thirds of our companies having reported their earnings, conviction in our stock selection process is higher than ever. We see many of our companies trading at 4-8 times earnings based on the first estimates for this year. The majority of our stocks are now trading on single digit earnings multiples which can be explained by the weakness of the market breadth over the past 12 months. Some of our holdings performed very well in the first 4 months of this year and hence we exited them partially or completely. These profits helped to outweigh the weakness in some of our other holdings. Despite generating returns of over 70% since the launch of our fund, we are still very bullish in regards to the outlook of our stock portfolio since it is as attractively valued as at the early days, when we started investing in Vietnam.

With the recent announcement from Moody's, to lift Vietnam's credit rating outlook to positive, the country is slowly appearing on the radar of more and more investors, something which has also had a positive impact on our assets under management, as we have experienced strong inflows in recent months. On a personal note, such positive news has led our CEO to increase his holdings in the AFC Vietnam Fund substantially during the month of April.

Economy

Macroeconomic Indicators					
	2013	2014	2015	2016	Apr-17
GDP	5.42%	5.98%	6.68%	6.21%	5.10%
Industrial production (YoY)	5.90%	7.60%	9.80%	7.50%	5.10%
FDI disbursement (USD bn)	11.5	12.4	14.5	15.8	4.8
Exports (USD bn)	132.2	150	162.4	176.6	61.3
Imports (USD bn)	131.3	148	165.6	174.1	64.1
Trade balance (USD bn)	0.9	2	-3.2	2.52	-2.80
Retail sales (YoY)	12.60%	10.60%	9.50%	10.20%	9.60%
CPI (YoY)	6.03%	1.86%	1.34%	4.74%	4.80%
VND	21,125	21,405	22,540	22,600	22,765
Credit growth (YoY)	12.50%	14.00%	17.30%	16.50%	4.03%
Foreign reserves (USD bn)	32	36	36	41	41

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

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New and additional FDI reached USD 9.24 billion in the first 4 months of 2017. Indirect investment of foreigners also increased to USD 1.35 billion. In total, direct and indirect investment into Vietnam expanded by 40.5% compared to same period last year with USD 10.59 billion. South Korea continues to be the largest investor into Vietnam with USD 4.05 billion, accounting for 38.25% of total FDI, the second largest is Japan with USD 1.85 billion.

Total exports from Vietnam increased slightly to USD 61.7 billion in the first 4 month of this year. Meanwhile, total imports reached USD 63.8 billion.

Other developments

Fast Moving Consumer Goods (FMCG) experienced record growth in the first quarter of 2017, +9.6% versus +5.3% over the same time last year. This reflects the highest growth in the past three years, according to Nielsen's Market Pulse Report. Robust FMCG consumption reflects Vietnam's consumer optimism with its consumer confidence index currently ranking fifth in the world

This positive sentiment over Vietnam's Lunar New Year helped to drive FMCG growth as consumers were willing to spend money. Rural areas became a new source of growth for many manufacturers over the past few years and now account for 51% of total FMCG sales. Over 60% of Vietnam's population live in rural areas and there are excellent opportunities for companies in this sector.

FAST MOVING CONSUMER GOOD GROWTH NATIONWIDE



Source: Market Pulse Report Q1/2017

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Subscription

The subscription deadline for this month will be the 25th May 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 30th April 2017

NAV	USD 1,730*
Since Inception	+73%*
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%	+1.94%	+0.7%*									+5.75%*

*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.*

DISCLAIMER

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