15th July 2017

# 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<br>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 |

## Contact Information


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After recent strong gains, the market has consolidated in the first half of July without having lost its positive "mood." An interest rate cut and continued upbeat economic news underlined the positive sentiment. HCMC was almost unchanged with a gain of 0.1%, while Hanoi gained 1.3%. Our stocks were quite mixed and according to internal calculations our NAV was unchanged at around USD 1,868.

## Market developments

The first half of 2017 was a terrific start for emerging and frontier markets, including Vietnam. With gains of 17% through the end of June, the performance of the main index in Ho Chi Minh City was higher than in previous years with January to June performance of 15% in 2014, 9% in 2015 and 9% in 2016 respectively. Trading volume increased significantly with an average turnover of USD 195m on both foreign inflows and increased local interest.

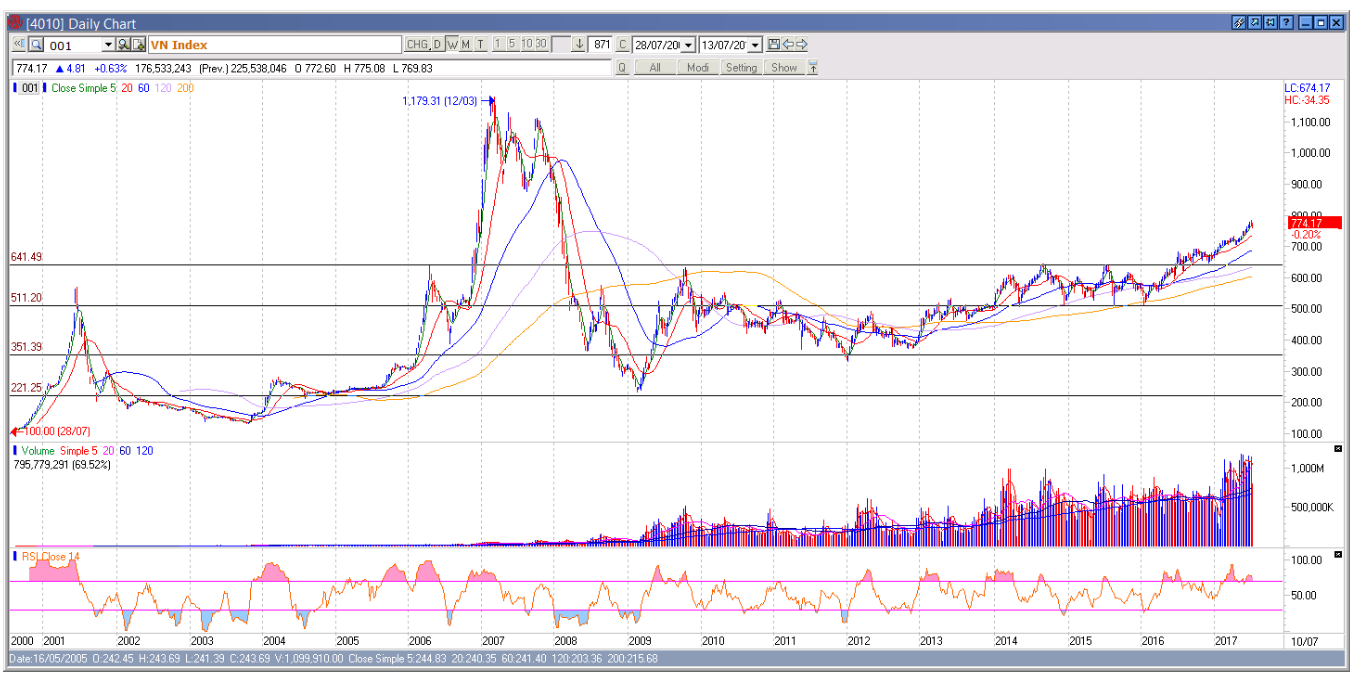

*Source: Yahoo.com*

Over the past 12 months the ETF for emerging markets (EMM US) gained 20% which seems impressive at first glance. However, if we look at the 5-year performance, then it advanced by less than 10% compared with performance in developed markets of 79% for the S&P 500 and 84% (in local currency) for the German DAX. In other words, we just ended a 5-year bear market in emerging markets, as we have stated many times before, and hence we are far away from a euphoric bull market which would be a major warning signal. While many experts pointed out a negative effect from a more dovish FED policy for emerging markets, we actually foresee signs of a top in the USD dollar index. Meanwhile the USD index is almost 7% off of its peak which was reached in January this year and which has released a lot of pressure from many emerging markets, including Vietnam. The Vietnamese Dong has been stable against the USD year-to-date and with easing inflation pressure the government is trying to put more stimulus into the economy through the recent lowering of interest rates as the macroenvironment for the country remains stable.

# AFC VIETNAM FUND UPDATE


*Source: Finviz.com*

Although corrections can happen in the short term, we do not see any imminent negative developments, neither for the economy nor for the stock market. As macroeconomic developments were more or less in line with our expectations when we started the fund in late 2013, we do not see any reason why the old index high can't become just another old high in the not so distant future. Just entering the first half earnings reporting season, we are expecting slight changes in our portfolio, according to our investment strategy, something which is merely an optimization to position ourselves to capture future opportunities.



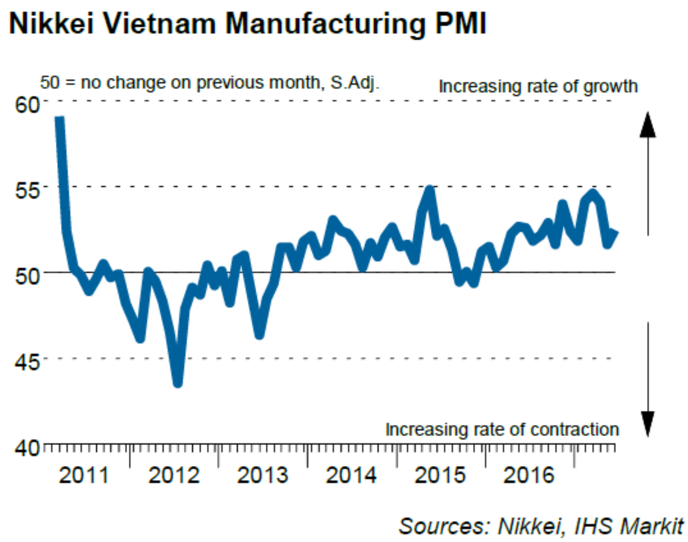

*Source: VietCapital Securities*

15th July 2017

# AFC VIETNAM FUND UPDATE

## Economy

**PMI in June sees pick-up in growth**




Growth in the Vietnamese manufacturing sector improved at the end of the second quarter of the year, following a slowdown in May. A solid rise in new orders supported increases in production, employment and purchasing activity. Business sentiment eased further, however, dipping for the fourth month running to the lowest in four years.

The headline Nikkei Vietnam Manufacturing Purchasing Managers' Index – a composite single-figure indicator of manufacturing performance – rose to 52.5 in June, up from May's 14-month low of 51.6. The latest reading signaled a solid improvement in the health of the sector and one that was above the average since the survey began in March 2011.

The pick-up in growth in the Vietnamese manufacturing sector in June allays some of the concerns that were raised by the marked slowdown seen in May, with a solid rise in new business particularly encouraging. Although slightly down on the first quarter of the year, the average PMI reading over Q2 points to a further expansion of Vietnamese manufacturing output.

Only a few days ago the State Bank of Vietnam (SBV) cut interest rates to support economic growth. However, in order to prevent inflation, the cut was only 0.5%.

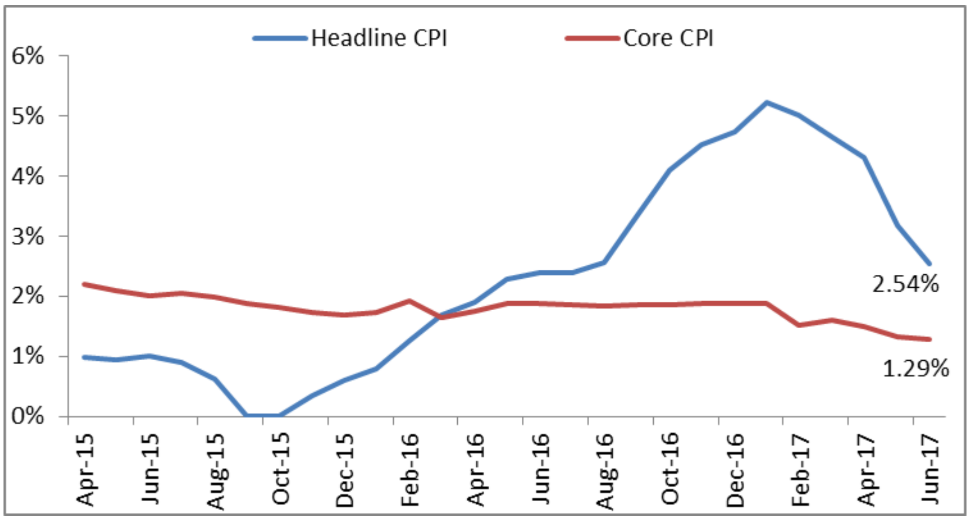
- The annual maximum short-term interest rate for loans in VND, in certain sectors, from financial institutions was cut by 0.5 percentage points

- The annual refinancing rate, the rediscount rate, the overnight electronic interbank rate and the rate on loans to offset capital shortages in clearance between the SBV and domestic banks were cut by 0.25 percentage points each

# AFC VIETNAM FUND UPDATE

This rate cut will encourage enterprises to borrow more in order to expand their businesses. The SBV decided to cut rates due to a slowing inflation rate in the first half of 2017, with the headline CPI in June being a modest 2.54%. Meanwhile, the core CPI continued to fall to 1.29% which helped the SBV in its decision to cut rates. The SBV is probably testing the impact on inflation and currency with this rate cut and without an adverse reaction they will most likely follow with further rate cuts in the near future.

**CPI since June 2007**




*Source: GSO, AFC Research*

## Subscription

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

Best regards,

AFC Vietnam Fund

15th July 2017

# AFC VIETNAM FUND UPDATE

### Estimated NAV as of 15th July 2017

| | |
|---|---|
| **NAV** | 1,867.93* |
| **Since Inception** | +86.79%* |
| **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% | +1.03% | +2.96% | +4.52% | +0.0%* | | | | | | **+14.18%*** |

***According to internal calculations**