



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	Andreas Karall
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

Contact Information

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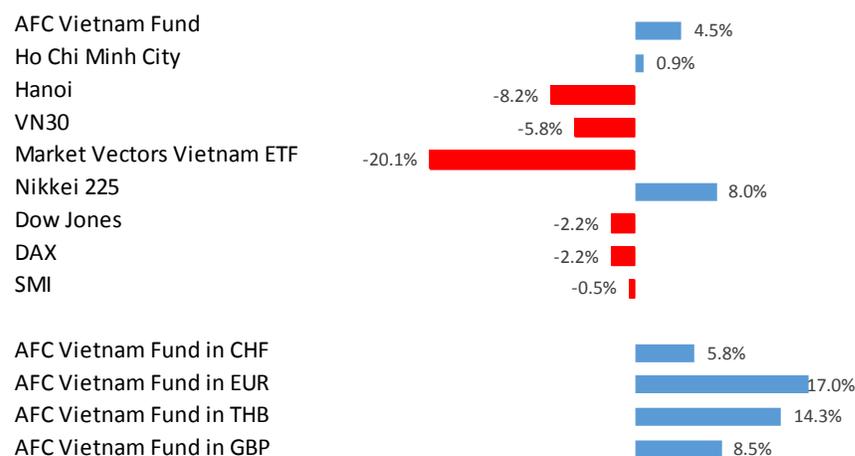
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The year 2015 ended not very spectacular. The two indices were inconsistent in December, Ho Chi Minh City closed the month with +1.0% and Hanoi declined 0.8%. According to internal calculations, our NAV was slightly up at approximately USD 1,418 (+0.2%).

2015 was certainly a difficult year, particularly for emerging markets, which declined 17%, by far the worst performance. For the first time since 1988 (!) they even recorded a net capital outflow. Given those figures, we have to be satisfied with Vietnam's overall performance and our fund's outperformance this year, even though with all the encouraging macroeconomic data one would have hoped for a better stock market.

2015 Performance in USD



We will not make any forecasts for 2016, in a world full of unknown economic variables. There are plenty of experts worldwide who are trying to do this - more or less successful – every year. But we can continue to analyse longer-term economic trends and look at individual countries and regions to study its opportunities and risks. Country earnings valuation is only one of many, but probably the most meaningful indicator to analyse equity markets. In Southeast Asia, which is for many years the fastest growing region in the world, Vietnam stands out particularly. The economy grew by 6.7% in 2015 in this still young economic cycle, marking the highest GDP growth rate in the region. Also valuations are very attractive, with a price-earnings ratio of 11.3 (Ho Chi Minh City) and 9.2 (Hanoi) - based on 12 months trailing earnings – thus still leaves considerable upside potential for its stock market.



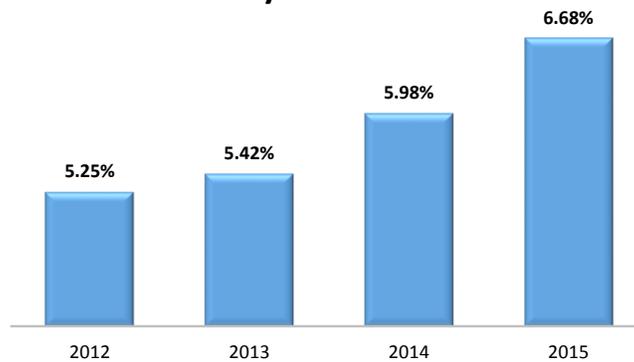
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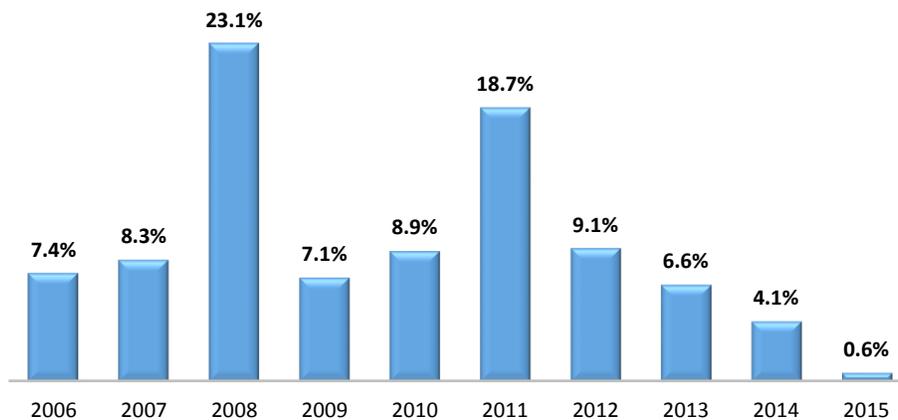
Source: Economist.com; Bloomberg

The GDP growth rate in 2015 was 6.68%, but for the last quarter it was at a stunning 7.01% – the highest Q4 growth since 2010! Also the inflation rate is well under control with an astonishing 0.6 percent, the lowest since 2001!

Yearly GDP Growth



Inflation, consumer prices (YoY)



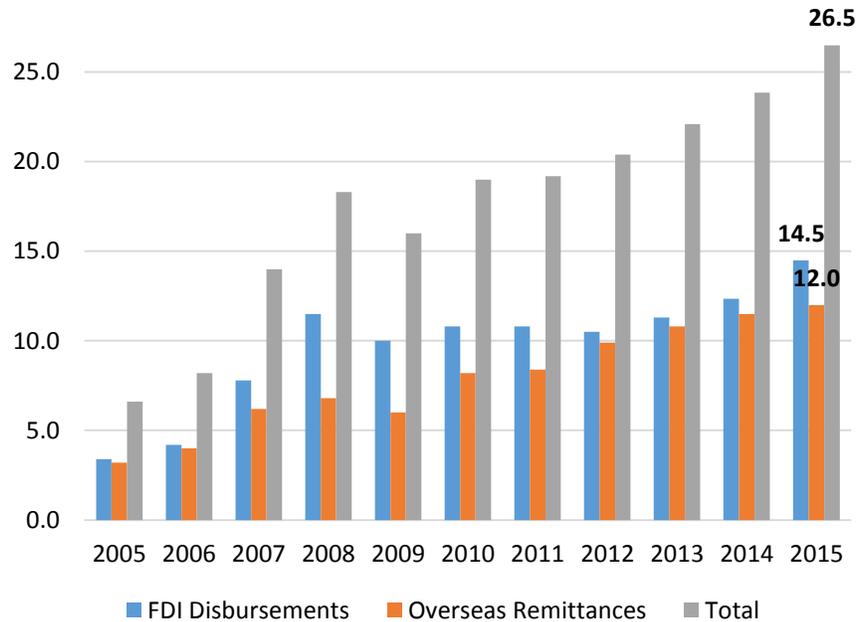
Source: Worldbank, Viet Capital Securities



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Vietnam has concluded by far the most free trade agreements in the region and is therefore uniquely positioned, especially in being one of the lowest manufacturing cost countries in the world. It is therefore widely expected that the high level of foreign direct investments of an expected record high of USD 14.5 billion and the overseas remittances of USD 12 billion in 2015, will continue over the next few years.

FDI & Remittances 2005 - 2015



Source: National Financial Supervisory Commission Vietnam

Another encouraging indicator was the ANZ-Roy Morgan Vietnam Consumer Confidence Index, which was 2.5 points up in December to a record high of 144.8 points, the highest score in Asia for the first time!

Also the real estate market looks much more promising. Since mid-2014, Vietnam's residential market has been recovering, firstly in the affordable segment. Entering 2015 the picture has become much clearer and the condominium market is now on a firm path towards recovery. The second quarter of 2015 marked a new record in quarterly absorption rate in the condominium segment, with over 10,000 units sold in both new and previous launches. For the first nine months of last year condominium sales were close to the whole-year peak seen in 2009 in Hanoi while in Ho Chi Minh City it marked a new record with nearly 25,000 units being sold.

Besides the many positive developments, we also need to have a look at the risks that undoubtedly exist in Vietnam. The dependence on exports is of course a result of the numerous investments by foreign companies in the manufacturing sector in Vietnam. A global slowdown or even a recession in the main export markets would have a considerable negative impact on economic growth. Also Vietnam's foreign reserves are still relatively low, despite inflows from foreign investments and remittances from overseas Vietnamese. The estimated USD 35 billion foreign reserves in relation to the overall USD 200 billion economy are still very small in comparison with for example Thailand, where foreign reserves are about at USD 150 billion with a USD 400 billion economy. This can probably partially be explained by the USD hoarding and speculation of banks and private individuals, even though the government is trying to prevent this recently with drastically lowering the interest rates on USD deposits.



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In 2015 we also saw a few new key policies for foreigners in Vietnam:

- **Visa exemption for foreign visitors** from Germany, France, the UK, Italy, Spain, Denmark, Finland, Japan, Norway, Russia, South Korea, Belarus and Sweden (July 1, 2015).
- **Visa exemption for overseas Vietnamese**, their foreign spouses and children to visit Vietnam without having to apply for a visa.
- **Relaxation of the rules on foreign ownership of property**. The changes allow foreigners with valid visas and international organizations operating in Vietnam to buy up to 30 percent of an apartment building or 250 houses in a ward -- a sub district-level administrative area (July 1, 2015).
- **Duty-free shopping on Vietnam-bound flights**. Previously, businesses were only allowed to sell duty-free goods at international airports in Vietnam and on-board flights that depart from the country.
- **New foreign ownership caps** which allows foreign investors to buy up to 100 percent of stocks from companies in non-strategic sectors. Although the new rule retains the foreign ownership cap for banks and some other sectors, limits are removed in many others (September 1, 2015).

With these positive developments we are very optimistic about Vietnam's economic outlook, especially if the government keeps on driving economic reforms and labour productivity can be improved. It really looks like Vietnam's stock market has a prosperous future ahead and will probably continue to outperform other emerging and Asian markets.

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

We would like to wish you all the best for 2016!



Best regards

Andreas Karall, CIO

**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.*

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