



## AFC VIETNAM FUND UPDATE

<b>Fund Category</b>	Vietnam Public Equities
<b>Country Focus</b>	Vietnam
<b>Subscriptions</b>	Monthly at NAV (five business days before month end)
<b>Redemptions</b>	Monthly at NAV 60 days notice
<b>Benchmark</b>	VN Index
<b>Fund Manager</b>	Andreas Karall
<b>Investment Manager</b>	Asia Frontier Capital (Vietnam) Ltd., Cayman Islands
<b>Investment Advisor</b>	Asia Frontier Investments Ltd., Hong Kong
<b>Fund Base Currency</b>	USD
<b>Minimum Investment</b>	USD 10,000
<b>Subsequent Investments</b>	USD 1,000
<b>Management Fee</b>	1.8% p.a. of NAV
<b>Performance Fee</b>	12.5% p.a. of AV appreciation with high watermark
<b>Fund Domicile</b>	Cayman Islands
<b>Launch Date</b>	23 December 2013
<b>Custodian Bank</b>	Viet Capital Securities, Ho Chi Minh City
<b>Auditor</b>	EY, Hong Kong
<b>Administrator</b>	Custom House, Singapore
<b>Legal Advisor</b>	Ogier, Hong Kong
<b>ISIN</b>	KYG0133A1673

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Although Vietnam wasn't able to fully decouple from the events of the last few days at the largest world stock exchanges, which lost between 7 and 10%, Ho Chi Minh City's fall was about half of that and currently stands at -4.5% and Hanoi at -5.3%. The Vietnamese Dong was unexpectedly slightly firmer and our well diversified portfolio declined by about 3.3% to an estimated NAV of USD 1,372. Once again, it appears that the so-called safe havens such as New York or Frankfurt have currently a much higher volatility (= risk) than for example Vietnam. The same applies for the AFC Asia Frontier Fund which invests in even lesser correlated countries and lost only 2.8% since the beginning of this turbulent start of the year.

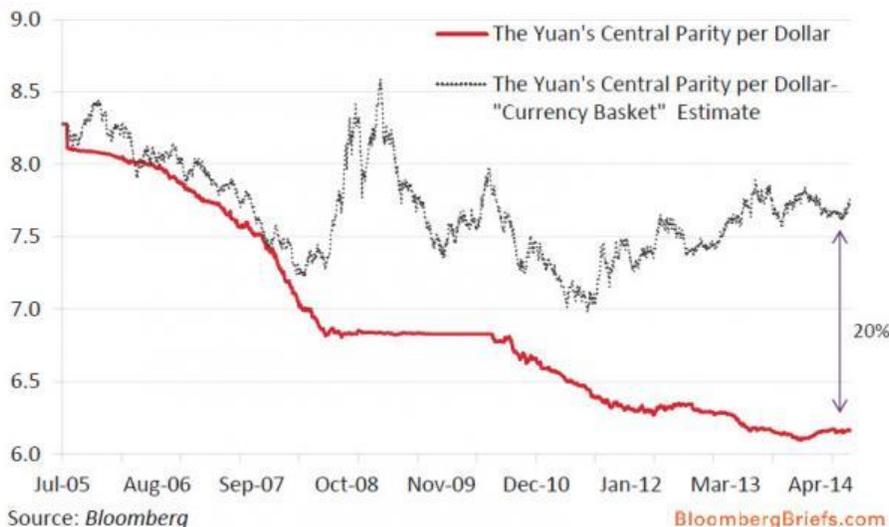
The reasons for this decline remain unchanged, namely a slightly weaker purchasing managers' index in China (48.2 points after 48.6 in November, analyst expectation was 49.0) which resulted in a renewed selloff in commodities and fears of a further weakening of the Chinese economy. The service sector however remains robust with a growth in production of 6% in a low inflation environment. We therefore must ask ourselves whether the buyers of these products are in economic difficulties (currently 1/8 of all global exports come from China. The largest importers of Chinese goods are the USA with 17%, Hong Kong with 15% and Japan with 6%). It is also important to note that the destination of new foreign direct investments often are countries such as Vietnam, which are playing an ever more important role, especially with a Chinese export share of around 40% in important sectors such as electronics and machinery which are strongly affected by this development.



The fact that the Chinese currency has to devalue is not really new, as already recognized two (!) years ago as you can see in the following chart. During the global financial crisis of 2008/2009 it was probably wise to live with this overvaluation of the Renminbi and to keep the currency stable, since a devaluation would have probably further aggravated this crisis.



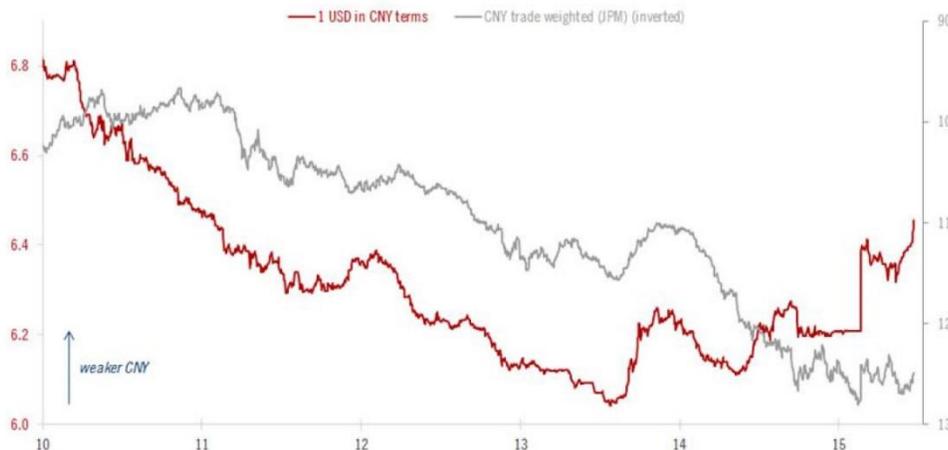
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Source: zerohedge.com, Bloomberg

Today in 2016 we see that the depreciation against the dollar since then is merely an adjustment to the weaker currencies of China's trading partners.

## USD/CNY vs. CNY basket

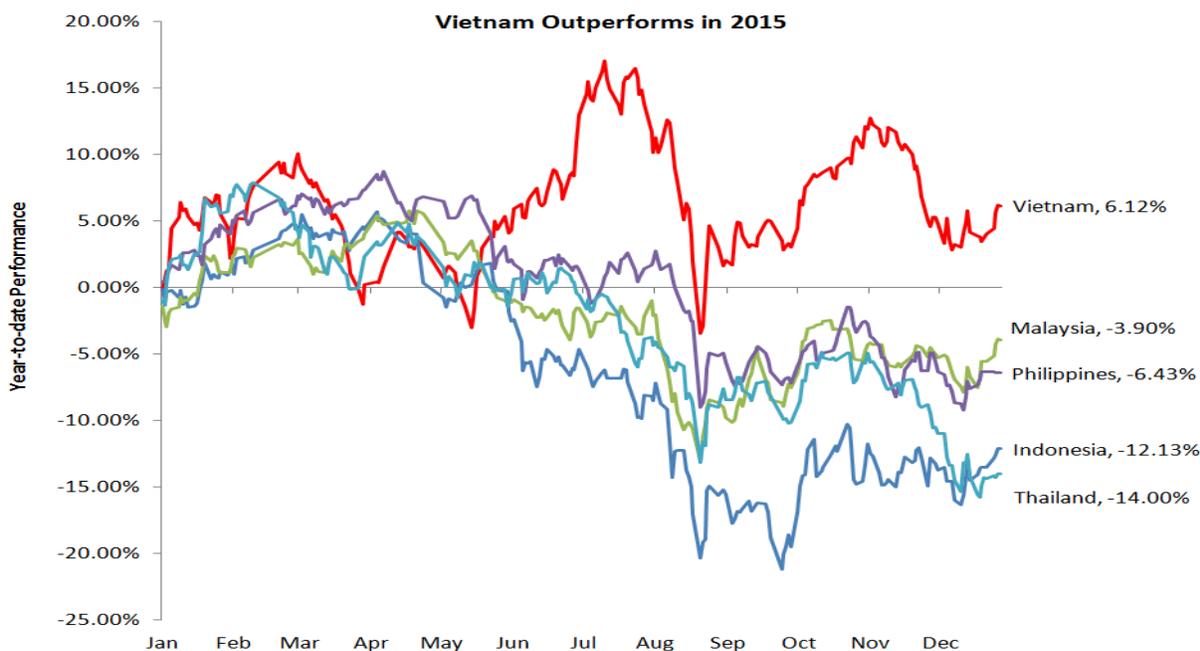


Source: Pictet WM – AA&MR, Datastream

A currency landscape, in which all currencies are falling against the dollar, can only mean one thing: The problem is not the weak currencies, but rather an appreciation of the US dollar. To stop this devaluation spiral from which ultimately no one benefits due to the fact that the various currencies are more or less stable to each other, at the same time it poses perhaps the greatest global risk for trade and growth, a new approach of monetary policies of major countries is urgently needed, but unfortunately nowhere in sight. A rapid increase in US interest rates would be also not much of a help.

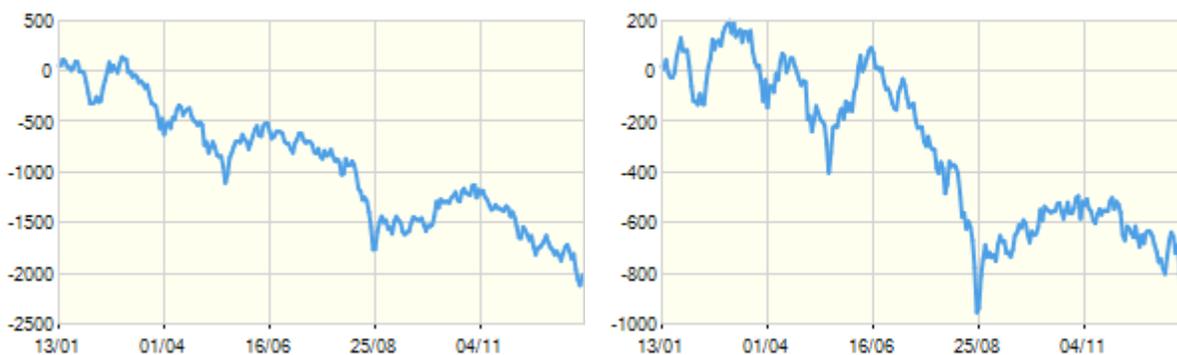
In this context, one has to look at Vietnam's economic achievements last year. Nevertheless, the stock market remained in accordance with the strong economic development, the strongest in the region.

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Source: Bloomberg, Viet Capital Securities

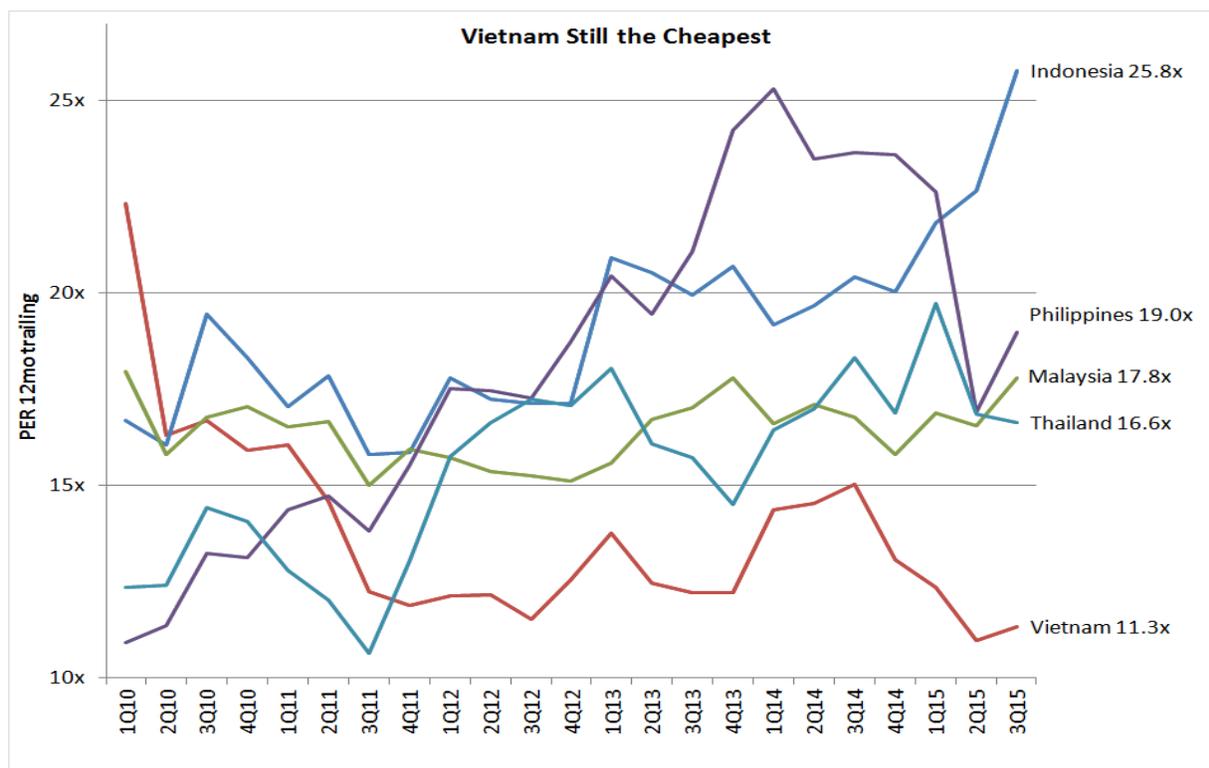
The broader market however lost steam in recent weeks and reflects the cautious behaviour of investors in general.



Source: stockbiz.com

The relative weakness can especially be observed at the more important stock exchange of Ho Chi Minh City. It is therefore the larger companies which are starting to recover first, which then hopefully will influence the overall market. Despite the outperformance of Vietnam, it remains the most attractive market within South East Asia and should benefit as soon as the storm on the stock markets settles again.

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*Se: Bloomberg, Viet Capital Securities*

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

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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