

## 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

### Contact Information

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The turbulence surrounding the exit of Great Britain from the EU resulted in a slightly higher volatility in Vietnam although the HCMC index continued to climb 2.2% in June. Smaller stocks on the Hanoi stock exchange did even better and the index gained 3.4%. Many of our companies were bought heavily over the past few weeks and with a slightly firmer Dong versus the US dollar - and an extremely firm Dong versus the British pound! - our NAV increased to USD 1,635, a gain of 5.4% according to internal calculations.

Of course also in Vietnam, Brexit dominated the news headlines in recent days. We cannot and will not make any predictions about the future development in this regard, but we would like to highlight some facts, which could be crucial for the future development of the stock markets. Once again, almost the entire guild of pollsters and investment professionals positioned themselves wrongly before the vote and the strong reaction of financial markets was inevitable after the surprising referendum result. As always, the biggest enemy of successful investing are emotions; it therefore makes sense to look closer at the post BREXIT market movements in comparison to the previous month. Amazingly "the market" has adjusted very reasonably, considering the jumps in the days shortly before the referendum results. The German stock market probably took the hardest hit with a decline of 5% since last month (May 24 – June 24), given that they are considered the export world champion, while in the US the S&P 500 has only lost a mere -1.7% over the same period. Even the UK stock market has only lost -1.3% - but of course the GBP declined by -6.5% (Euro in the same period almost unchanged). Future UK exports to the EU might be more difficult but at the same time the weaker pound might partially offset this. Vietnam, with only about 3% of total exports going to the UK, even managed to advance by +1.5% (Ho Chi Minh City Index) during the period of May 24 – June 24.

The crucial point is, that even with a 20% decline of Vietnam's foreign trade with the UK, it would only equate to 0.6% of total exports. UK's exit from the EU takes realistically at least 2 years and until then, Great Britain remains a full member of the EU. Over that transition period there might be even some benefits for its export industry due to the weaker pound. At this point it is rather difficult to forecast how quickly the UK will negotiate trade agreements with the EU, but given that it is in both their economic interests, one would not expect a disaster, as long as the EU leaders have learned their lessons from past events. This means that all analyst company forecasts which came out immediately after polling day, are complete nonsense. Absolutely no one knows when and under what conditions UK companies will be able to operate and hence I ask myself on what grounds these analysts base their assumptions and calculations on? Undoubtedly some sectors, such as e.g. the British financial industry, will be affected more than others, given all these upcoming changes, but long-term winners and losers will only emerge in the distant future.

The real danger lies rather in a possible domino effect within the remaining nations. The shock in the EU and even among the British Brexit supporters was clearly felt after the referendum result, which led to wishes of Scotland remaining in the EU to sometimes absurd demands such as to repeat the referendum or even for London to exit (!) the UK. This could therefore even lead to a strengthening of cohesion among the remaining EU member states and maybe even new opportunities for the EU overall will arise, should those be in charge willing to embrace economic reforms. Ok, enough of my wishful thinking ...

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Source: Yahoo

The price declines in European stock markets will certainly be remembered as a sharp correction, but it definitely can't be described as a disaster. If you would be drinking a coffee somewhere in London or Berlin, two topics would be dominating the discussion - Brexit and the European Football Championship. If, however you would be drinking a coffee in Saigon, you would be hearing many talking points - including football. And precisely those are the people which are buying the same stocks as our fund does, and not the anxious European investors which are uncertain about their political future. Emerging economies could be even benefitting by the once again postponed expectation of a US rate hike. Recent volatility in most emerging and frontier markets was certainly much lower than those of the developed markets.

From an AFC perspective, June was in many ways a much more positive month than for the rest of the industry. Same as with many previous corrections, the volatility of Vietnam and our fund was much lower compared to international stock markets. On Brexit-day the fund lost around -1.5% in USD terms (HCMC index -2%), and for our Swiss Franc and Euro-based investors it was even a flat day due to the strengthening of the USD. Slowly but surely we are getting closer to the market break out level, which we mentioned so many times before. Given the continuation of the outperformance of smaller stocks in Hanoi, both indices are now only about 3% below the famous break out point.

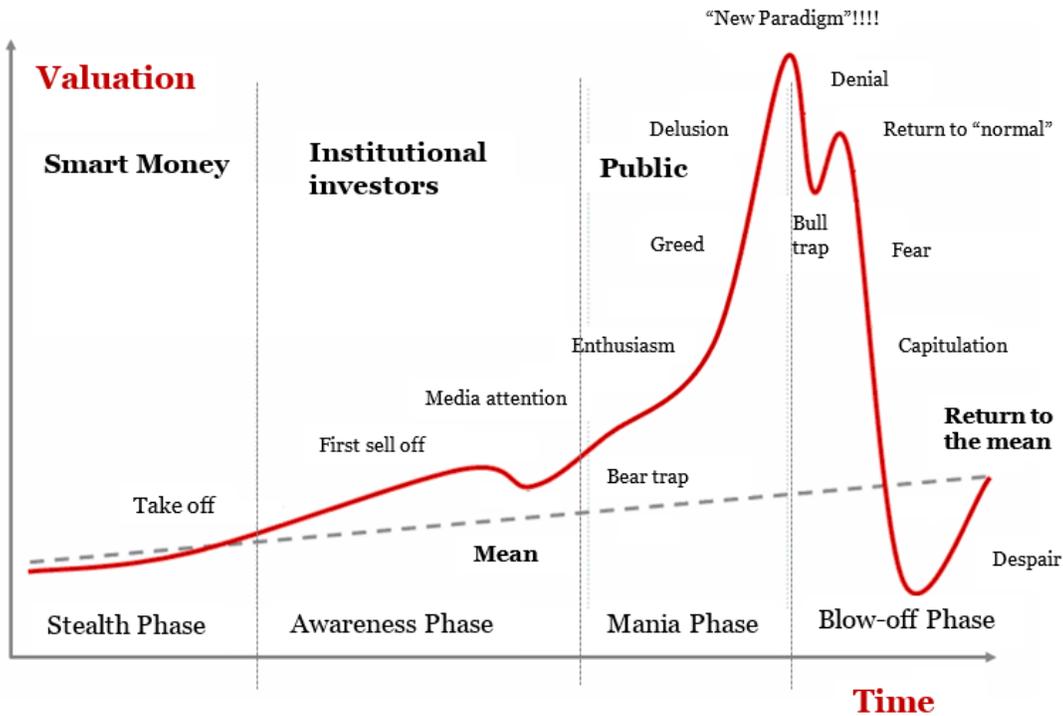
If we look at the macroeconomic picture of Vietnam we are very pleased that the outlook has not changed at all. The recently reported GDP growth numbers, which showed that the economy expanded by +5.5% in the first 6 months of this year, putting in doubt that the government's full-year target of +6.7% growth can be reached. The economy will probably still grow at over 6% in 2016, but the half year number was very much affected by weak agriculture business due to the prolonged drought in the whole region. Luckily the start of the rainy season seems now to improve the situation bit by bit. Also worth mentioning are the strong consumer demand and new record highs in direct investments.

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Source: Viet Capital Securities

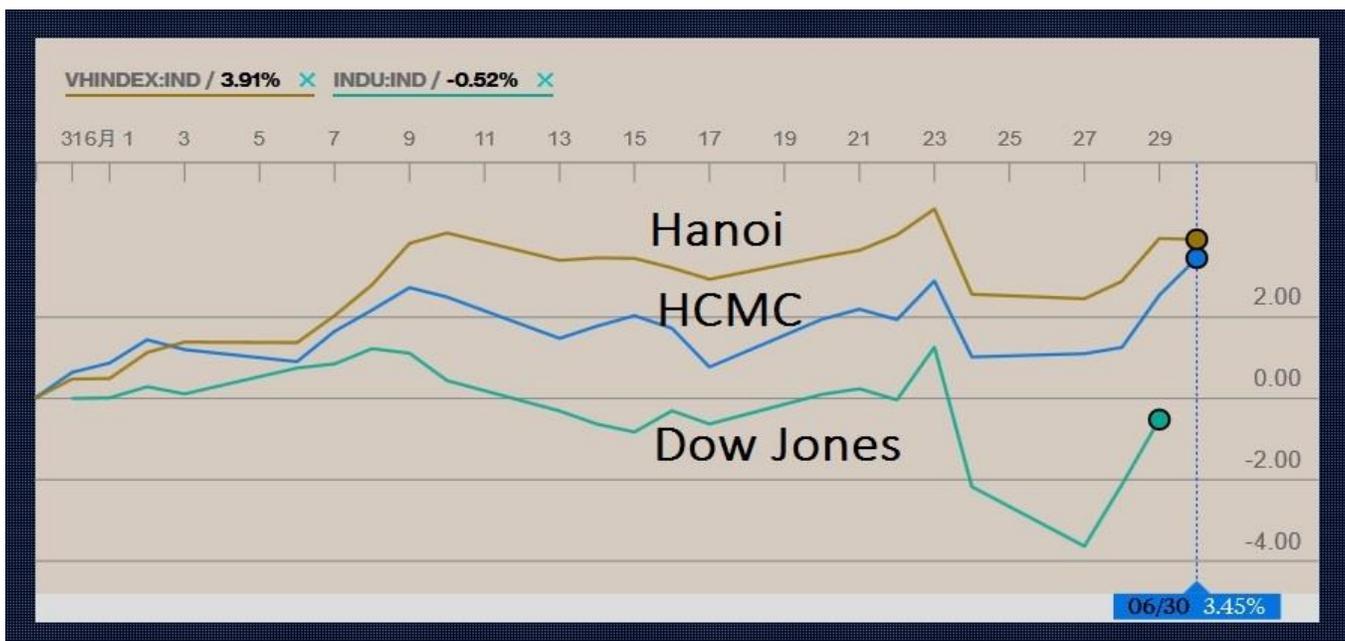
We recently posted in our Twitter account an interesting chart about the long-term investment cycle. For all those who are interested in timely news and updates about Vietnam and our fund, please have a look at <https://twitter.com/afcvietnamfund>



## AFC VIETNAM FUND UPDATE

From today's perspective, we launched our fund back in December 2013 in the "smart money" cycle and are currently in the "institutional investor" phase. This graphic illustrates very well what we are waiting for in the typically 5-10 years lasting market cycle!

Very often financial journalists are stimulating fears of investors by reporting on events or developments on the major stock exchanges. But emerging and frontier markets in particular have often very different market cycles and valuations and should be therefore dealt with selectivity. I am definitely not in a position to come up with an accurate forecast of the current slightly above-average valuations of stock markets like USA or Germany, but if the DAX or Dow Jones are 25% higher or lower in a few years' time, this should not affect us. After 5 years of dramatic underperformance of emerging markets, we definitely feel that countries like Vietnam could finally take off.



*Source: Bloomberg*

In the coming weeks, publications of the first half-year results are due and we expect further insights of our portfolio for the 2<sup>nd</sup> half of the year and we will make appropriate adjustments in due course. As a British investor recently acknowledged: "Brexit has led to a situation in which I now look to Vietnam as a haven of peace and stability!"

The subscription deadline for this month will be on the 25<sup>th</sup> July 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

# AFC VIETNAM FUND UPDATE

## Estimated NAV as of 30<sup>th</sup> June 2016

<b>NAV</b>	USD 1,635*
<b>Since Inception</b>	+63.5%*
<b>Inception Date</b>	23/12/2013

## Monthly Performances AFC Vietnam Fund

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
<b>2013</b>	<b>USD</b>												+2.37%	<b>+2.37%</b>
<b>2014</b>	<b>USD</b>	+8.75%	+4.50%	+2.18%	-4.65%	-0.32%	+1.45%	+1.86%	+5.49%	+3.87%	+2.83%	+2.50%	+0.60%	<b>+32.50%</b>
<b>2015</b>	<b>USD</b>	+0.44%	+1.76%	-0.96%	+1.93%	-0.48%	+0.06%	+0.22%	-4.57%	+1.18%	+6.90%	-1.82%	+0.25%	<b>+4.62%</b>
<b>2016</b>	<b>USD</b>	-0.10%	+3.30%	+1.28%	+3.17%	+1.40%	*+5.4%							<b>+15.2%*</b>

\* 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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