

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	Vincente 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	EY, Hong Kong
Administrator	Custom House, Singapore
Legal Advisor	Ogier, Hong Kong
ISIN	KYG0133A1673

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The first two weeks of 2017 were quiet but had a positive underlying developing trend. As the long Chinese New Year holiday (Tet) is coming soon, the trading volume was very low and, the trading took place primarily in few selected names. Small caps in particular were largely ignored, but the market breath (advance / decline ratio) was relatively stable – for the first time in months. Most companies will report their 2016 earnings after the Tet holiday in early February when we expect higher volumes and stronger market movements. On a positive note, the long-neglected banking stocks were trading up strongly for the first time in months, which helped to improve the markets' technical picture of the Hanoi index which is important for our small- and mid-cap universe, going forward into 2017. The indices in HCMC and Hanoi were able to advance 4% and 3% in first 2 weeks of January, while our fund, with no holdings in bank stocks, was slightly up with a NAV of approximately USD 1,644 (+0.5%) according to internal calculations.

Market developments

With small-caps currently still in oversold territory and the stock market indices turning up again and approaching crucial resistance points, we are waiting and expecting a turning point for the broader market. The correction of the market breath is now exactly 6 months old and many of our companies are trading on extremely attractive valuations again. In order to better illustrate this, we will provide our investors with a more detailed valuation report, shortly after the Q4/2016 earnings results, which will be released over the next few weeks.



Hanoi index chart; Source: Viet Capital Securities

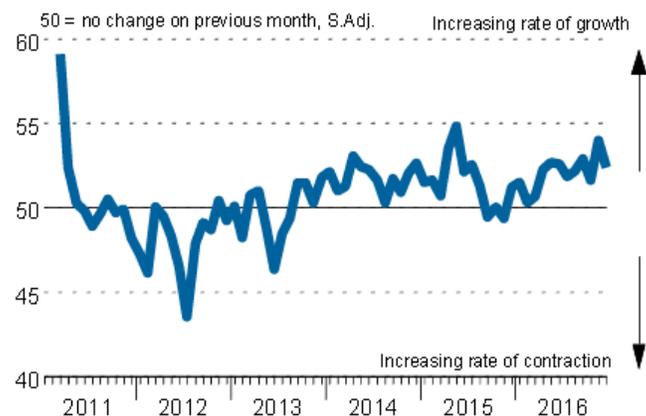
After the reassuring company visits of last month we are now seeing announcements of rather aggressive dividend payments of some of our holdings. For example, one of the leading seafood companies in Vietnam just announced an expected dividend for 2017 of VND 3,000, which equates at the current market price of around VND 20,000 to a 15% dividend yield, while the stock is trading at only slightly more than 6x earnings! Another example is a pharmaceutical company which just passed a resolution to pay out all the withheld dividends for the past few years in one go, which will result in a whopping dividend yield of around 20%! We see attractive dividend yields in many of our holdings and this will of course also contribute to our performance in 2017.

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Economy

The headline Nikkei Vietnam Manufacturing Purchasing Managers' Index (PMI) – a composite single-figure indicator of manufacturing performance – posted 52.4 in December, down from November's reading of 54.0 but still signaling a solid monthly improvement in the health of the sector. Andrew Harker, economist at IHS Markit said that solid growth in the final month of 2016 completed a generally positive year for Vietnamese manufacturing sector, with local firms continuing to be able to secure new work, with a joint-record rise in new export business a key from the latest survey. The sector therefore seems in good shape heading into 2017, wherein IHS Markit forecasts an acceleration in GDP growth to around 6.3%.

Nikkei Vietnam Manufacturing PMI



Sources: Nikkei, IHS Markit

GDP is expected to grow at 6.5% in 2017

Viet Capital Securities (VCSC) predicts the GDP growth to increase from 6.2% in 2016 to 6.5% in 2017, due to the recovery of the agriculture sector, oil price, together with the resilience of export-oriented manufacturing and consumption. Please see below a summary of Viet Capital Securities' forecasts.

- **Domestic consumption: Consumer spending will continue to accelerate ahead of Lunar New Year.** Consumer spending will be supported by an increase of 7.3% in minimum wage in 2017, improvement in employment, significant surge in international visitors, and other competitive factors such as: young population, strong consumer confidence and a stable economic outlook.
- **Trade: VCSC forecasts a 2017 trade surplus of USD1.4 billion.** They project Vietnam's export turnover to maintain its rising trend at around 9% in 2017, while imports are expected to grow at nearly 10%, which is higher than 2016.
- **FDI: VCSC expects FDI inflows will remain strong in 2017,** supported by FTAs, several upcoming mega-projects, rising labor costs in neighboring countries, and other competitive factors of the country include political and social stability and significant improvement in the infrastructure system, regulations and business environment.
- **Inflation: VCSC expects inflation will stay at around 5% in 2017,** forecast based on continuing government healthcare policies and rising electricity prices. In 2016, Vietnam recorded a benign 4.74% inflation rate, led by rising healthcare costs and higher food costs.

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- **FX rate: The dong is expected to depreciate at around 3% in 2017.** The dong was stable for most of 2016, appreciating 0.7% through October and managing to decline only 1.2% for 2016, despite a strengthening dollar following the US election.
- **Credit and deposit growth: VCSC projects 2017 will be another year of strong credit growth at about 17%-18%:** major drivers for 2017 credit growth will come from: 1) the expected recovery of agriculture, which will be helped to some extent by a newly approved VND60 trillion credit package for high-tech agriculture; 2) strong consumer spending; 3) stable manufacturing growth, which is supported by strong disbursed FDI and export growth.

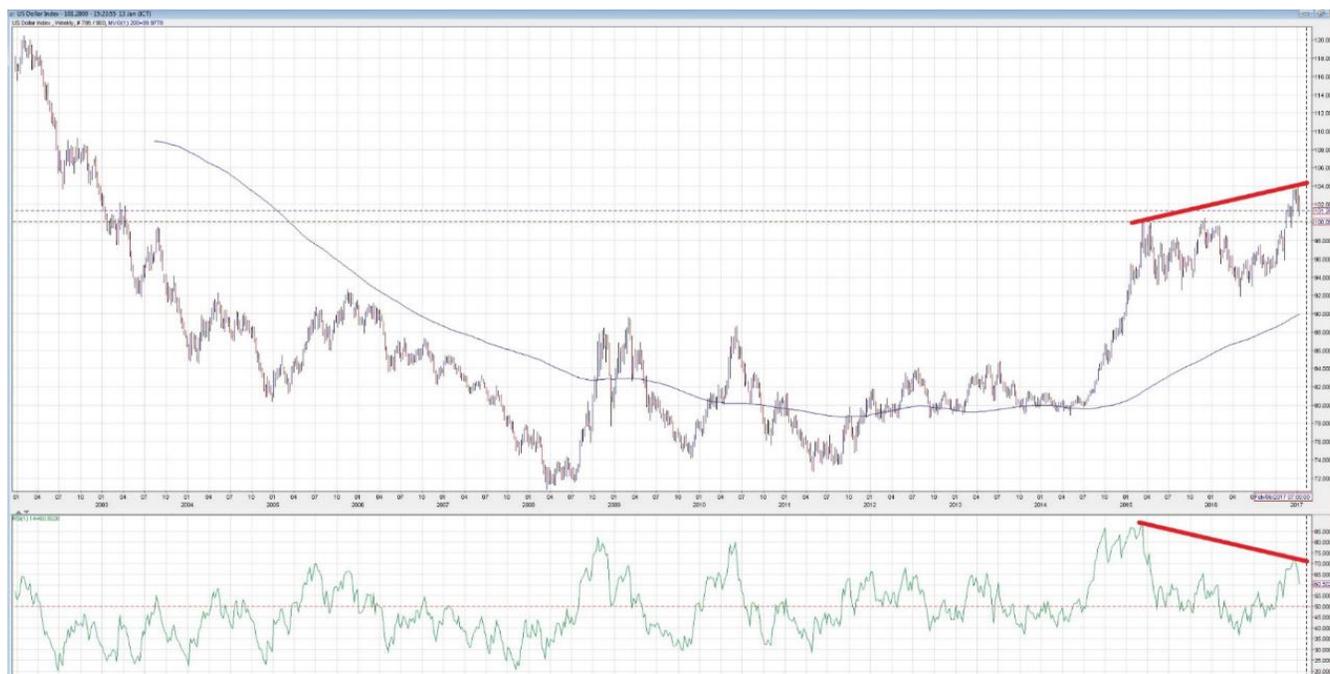
The largest airline operator was listed

In December, the largest airline operator, Vietnam Airlines, was listed on the UPCoM exchange. The market cap of Vietnam Airlines is around USD 2.35 billion. With a 46.7% domestic market share and a fleet of 88 aircrafts, Vietnam Airlines is the largest airline operator in Vietnam, followed by Vietjet Air and Jetstar Pacific, a joint venture between Vietnam Airlines and Jetstar Group.

In December, Vietjet Air successfully sold a 24% stake to 24 foreign investors. The company is valued at USD 1.2 billion. Vietjet Air is holding a 43% market share with a fleet of 42 aircrafts.

Other developments

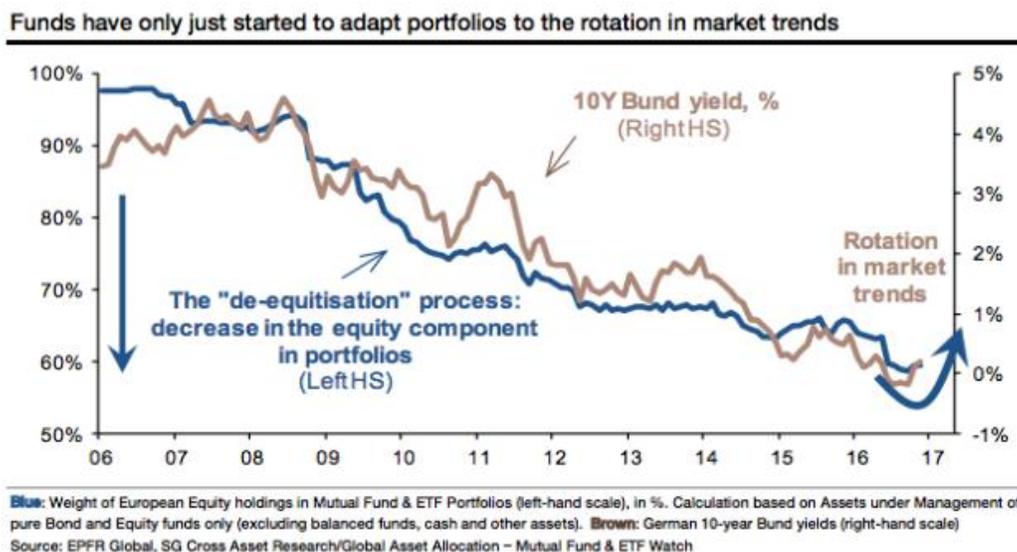
The Chinese actions to curb capital outflows took out much of the downward pressure in the Vietnamese Dong. This will also challenge the – for now – still intact upward trend in the USD-Index. If the index would fall below the all-important 100 level, we would see a confirmation of the negative divergences in the RSI. With almost everybody now in the pro-Dollar camp, this would lead to a strong reversal of global flows and strongly support emerging markets.



Source: www.netdania.com

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Another interesting picture is the ongoing rotation in market trends. As falling bond yields over the past years were supportive for bond fund performances and inflows while the average equity position in the portfolio was reduced, this trend could now reverse. As global investors are in need of yield in this low interest rate environment, strong growing economies in Asian emerging markets with solid valuations like Vietnam should come in focus again, as soon as the dust settles around the Trump election and inauguration.



Subscription

The subscription deadline for this month will be the 24th January and if you would like any assistance with the investment process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

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Estimated NAV as of 13th January 2017

NAV	USD 1,644*
Since Inception	+64.4%*
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	+0.5%*												+0.5%*

*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.*

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