



## AFC VIETNAM FUND UPDATE

<b>Fund Category</b>	Vietnam Public Equities
<b>Country Focus</b>	Vietnam
<b>Subscriptions</b>	Monthly at NAV (five 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 NAV appreciation with high watermark
<b>Fund Domicile</b>	Cayman Islands
<b>Launch Date</b>	11 December 2013
<b>Custodian Bank</b>	Viet Capital Securities, Ho Chi Minh City
<b>Auditor</b>	Ernst & Young, Hong Kong
<b>Administrator</b>	Custom House, Singapore
<b>Legal Advisor</b>	Ogier, Hong Kong

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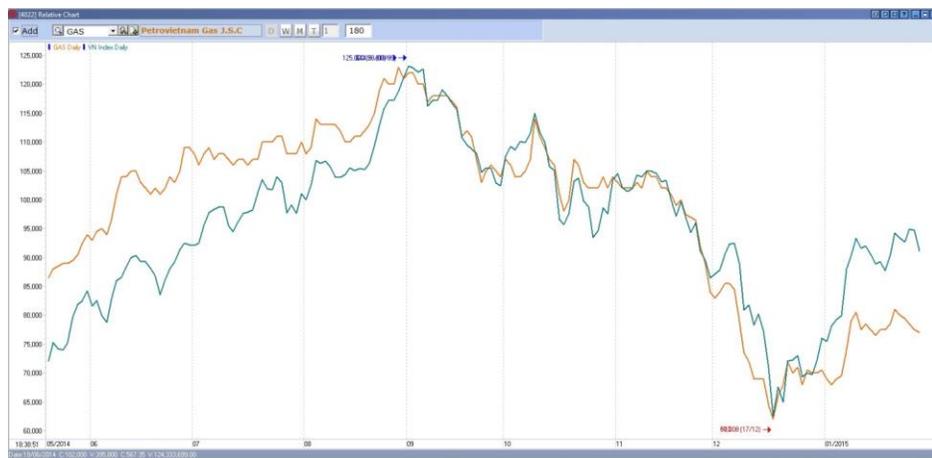
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Finally, after a four month correction, the first trading week of 2015 started with a nice recovery. After the past few surprisingly weak months, the turnaround that we had been expecting happened which will hopefully soon expand to the broader market. The main beneficiaries of the recent rebound were the long-neglected banks, which reported positive earnings but also increased due to government reports about a few potential banking mergers this year. We too became more bullish on the banking sector recently and were close to investing, but we decided not to get involved in the end because we see more potential in the medium term in other sectors, such as for example industrial, consumer and selectively property. The second main reason for the index increase was the announcement of a share buyback program by PetroVietnam Gas JSC (GAS), a company which is part of the Ho Chi Minh Index with a (very high) weighting of 15%. We bought a small position in this stock assuming a technical recovery which is far from the allocated index weighting and more in line with other investors who typically hold a relatively small position relative to the index.

We therefore see quite a diverse performance picture in January; the Ho Chi Minh Index led by GAS and banks rose by +5.6%, the Hanoi index which also contains banks (but not GAS) increased by +3.1%. Many of our holdings which significantly outperformed the market in recent months saw a consolidation in the past few weeks which saw our NAV increase by +1% to around USD 1,370 according to our internal calculations. This brings the performance to +37% since inception on 23. Dec. 2013.



Source: VietCapital

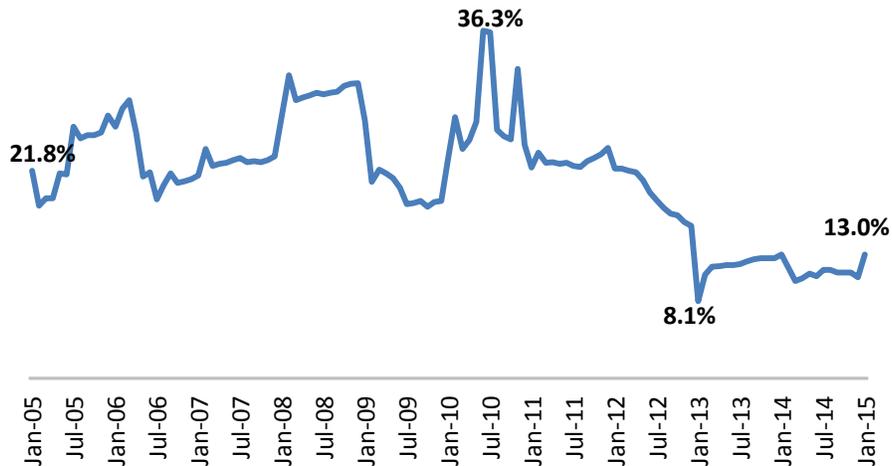
The volatility of the heavily index weighted GAS (orange line) is only partially visible in the graph above versus the HCMC Index (green line). GAS had first doubled and then halved again, all in the same year.

We are therefore glad to have invested free of any short-term index fluctuations and will continue to focus our attention on the long-term development of the Vietnamese economy and businesses.

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All the macroeconomic numbers which have been out so far have enforced our long-term bullish view about Vietnam. We saw very strong retail sales numbers with a +13% growth rate year on year, mainly due to strengthening domestic activities. This month's real growth pace is showing that domestic demand is strongly improving in real-term. With an improving domestic consumption combined with strong foreign direct investments is certainly a powerful combination to drive a robust and sustainable recovery.

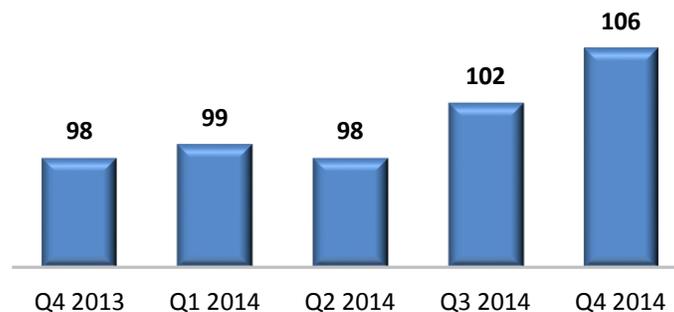
### Retail Sales Growth Rate (YoY)



Source: Bloomberg

Another encouraging sign came from the Q4 2014 Consumer Confidence numbers, which also showed a very healthy increase to 106, +4 versus Q3 2014. It was interesting to note that 85 out of 100 Vietnamese people are changing their consumption habits, becoming more "intelligent" in shopping with at least 83% comparing similar products first before purchasing them, but at the same time becoming more quality conscious and being prepared to pay more for good products.

### Consumer Confidence Index

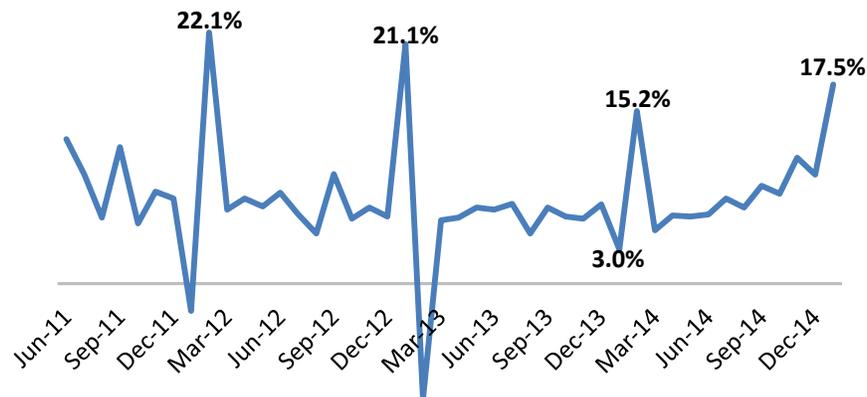


Source: Nielson

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It is also worth noting that industrial production picked up in January to reach +17.5% year on year. In particular the manufacturing sector producing smart phones, PCs and other electronic devices surged impressively. January numbers are often quite strong as it is shortly before the Lunar New Year but the previous months also showed a nice acceleration.

### Industrial Production Growth Rate (YoY)



Source: Bloomberg

At the same time earnings reporting for 2014 has begun which is important as it forms the backbone of our fundamental quantitative approach. Based on the results we will decide if any portfolio adjustments are necessary. Presently around 60% of our holdings have already reported their earnings, showing a mixed picture, with overall sales slightly above expectations, but revenues slightly below our estimates. According to current forecasts, 2014 profits of the companies in our portfolio should increase by approximately +10%, which is significantly higher than the overall market. It is still too early to do a reliable 2015 earnings forecast at this time, but a more detailed explanation of this can be found in our next monthly newsletter.

Whilst there was an announcement of a 1% devaluation of the Vietnamese currency at the beginning of the year, by adjusting the trading band 1% up, we view this as a non-event given all the turmoil around the Swiss franc. The Vietnamese Dong is trading even slightly stronger versus the USD since the beginning of the year.

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Source: Bloomberg

The subscription deadline for this month will be on 23<sup>rd</sup> February at 4pm Singapore time.

Best regards

Andreas Karall, CIO

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