

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

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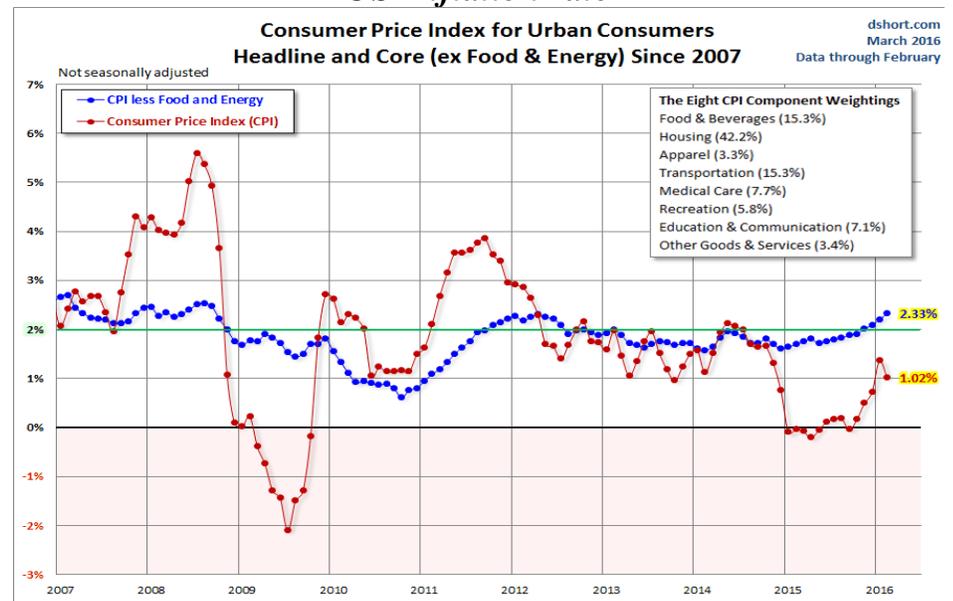
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The recovery from the initial weakness at the beginning of the year continued in the first half of March, but then came to a halt due to counter-movements in the USD and commodity prices. With this healthy correction, the two indices closed with only minimal gains of + 0.3% (Ho Chi Minh City) and + 0.4% (Hanoi). Based on internal calculations, our NAV closed the month with a slightly better gain of + 1.2% at about USD 1,482.

After massive price increases in various previously sold off markets such as e.g. oil (+50%) and Brazil (+40%), we saw some profit taking. Focus is once again at the Fed, which could further raise interest rates with the end of the deflationary environment. The same underlying assumptions serve both camps; on one hand as a buy argument for risk assets (commodities, emerging markets and their currencies), but as well as a sell reason for pessimistic investors (interest rate increase and a renewed selloff of risk assets). These mood swings of short-term "investors" will probably continue to pursue us in the coming weeks and months until a somewhat clearer trend has been established.

US-Inflation rate



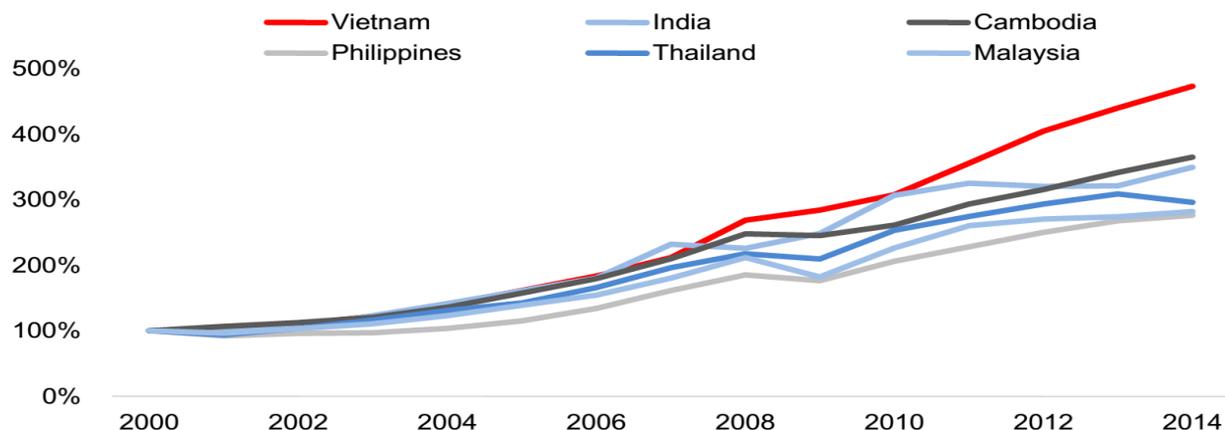
Source: dshort.com/

Even clearer to recognize is the turning point of inflation in Vietnam. The year on year inflation rate increased to 1.25%, after some fears of deflation arose, which is rather absurd for an emerging country in the midst of an economic recovery. The inflation rate is expected to rise to more than 3% by year end which is still considered very low for Vietnam, mainly due to the disappearing base effect of cheap oil in the second half of 2016. The recently published Q1 GDP growth rate of 5.5% was a little disappointing with about 0.5% below the previous year Q1 number. The main reason was the negative development of agriculture driven by the "El Nino effect" and the slightly lower growth of exports as a result of weaker economies of the importing countries. Nevertheless, with a very robust domestic demand the growth rate should be well above 6% for the full year.

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Even more impressive compared to other Asian countries is Vietnam's growth rate adjusted by the population growth factor. Although the headline growth rate in countries like Cambodia or Philippines is very similar, their birth rate is significantly higher than in Vietnam.

Figure 2: Robust GDP per capita growth, outpacing regional peers



Source: World Bank

From a market technical viewpoint we will hopefully test the index highs of the previous year in Q2, as soon as the current correction is over. The overall market is trading only near the average of the past two years, although our March NAV closed on a new all-time high.



Source: Viet Capital Securities

We have always emphasized in our argumentation that we are expecting to see a long-term bull market in Vietnam (which has paused now for already two years!), which will initially be driven by a revaluation to the level of regional markets and then a potential exaggeration on the upside as it happens worldwide on a more or less regular basis. It is undisputed that the mentality of the Vietnamese people would fit this profile very well - and selectively can already be seen in a market driven by rumours. On the speculative UPCOM market, the third market in Vietnam for newly listed shares and companies with a lower

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reporting standard, we saw a 30% increase in the index in March alone. This raise even compares relatively modest to the 150% increase in 2014 and the 50% correction shortly after in only 6 weeks.



Source: Viet Capital Securities



Source: Viet Capital Securities

Occasionally we also see this speculative wave also moving into Hanoi small-caps, similar to autumn 2014, when we decently outperformed the market, although we have only invested into a single stock long term with a weighting of about 1% on the UPCOM market. Nevertheless, we think that in the future such speculative waves will also be seen on the two main exchanges at a probably more modest pace and the very low price fluctuations of the two main indices by international standards will come to an end - in a positive sense! Japan, Taiwan, Thailand, China, the US Nasdaq, Neuer Deutscher Markt, Eastern Europe, etc ... all these markets had their excesses during their economic upswing - so why not Vietnam.

31st March 2016

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The subscription deadline for this month will be on the 25th April 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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