

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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While the HCMC-index recovered quite strongly in the second half of September and reached a new multi-year high, the rally was still concentrated in a few stocks. At least the index in Hanoi was able to catch-up in the last few trading days, although with a focus on a few sectors only. While Vinamilk was losing about 10% last month, the biggest winners were oil & gas and financials. The indices in HCMC and Hanoi were able to advance 1.6% and 0.7% in September while our fund was literally unchanged with a NAV of approximately USD 1,680 (0%) according to internal calculations.

Market developments

In 2016 stock performance was driven by stories around index-related big cap stocks so far, while the majority of stocks was neglected. The 2016 price change of the main index in HCMC was three times the performance of the index in Hanoi and even there it was mainly contributed by a few sectors.

VNINDEX Index		97 Settings		Page 1/15 Comparative Returns	
Range	12/31/2015 - 09/30/2016	Period	Daily	No. of Period	274 Day(s)
Security	Currency	Price Change	Total Return	Difference	Annual Eq
1) VNINDEX Index	VND	18.64%	21.46%	11.48%	29.56%
2) VHINDEX Index	VND	6.29%	9.98%		13.51%
3) VN30 Index	VND	12.22%	14.41%	4.43%	19.64%



Source: Bloomberg

After small cap stocks had performed very well over the last few years - especially in 2013 and 2014, this year big names have stolen the show. With our portfolio now trading at a roughly 50% discount to the market and a thrilling technical picture (more about that in our next interim report), we are looking at an interesting final quarter.

There will certainly be fewer privatizations in 2016 than last year but the government is now focusing on well-known big companies like Saigon Brewery (Sabeco), which will submit its share listing documents soon to the Ho Chi Minh City stock exchange after getting approval of Ministry of Industry and Trade. Sabeco is the largest brewery company in Vietnam with more than 40% market share, with a lot of famous and popular brand names such as for example 333 and Saigon beer. In 2015 total revenues of Sabeco hit a record high of 27,144 billion Vietnamese Dong (USD 1.2 billion) and profit before tax of VND 4,470 billion (USD 200m). The Ministry of Industry and Trade is currently the largest shareholder of Sabeco with a 90% stake. According to government sources, the state will sell its stake in Sabeco in two phases after listing. In the first phase, the Ministry of Industry and Trade will sell about 54% of its holding and in the second phase a few months later they will sell another 36%.

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Currently there are at least 7 major international breweries interested to buy Sabeco's stake, such as Heineken, Anheuser-Busch, SAB Miller, Asahi and Kirin Holdings. The Sabeco listing will be a great event for Vietnam's upcoming financial market and will attract new foreign investors and it is also another small step to reach emerging market status.

(VND billion)	2013	2014	2015	1H-16
Net revenue	24,006	25,107	27,144	14,736
Gross profit	5,857	7,471	7,558	4,058
Operating profit	3,274	3,530	4,433	3,006
Profit before tax	3,579	3,918	4,470	2,984
Net profit	2,495	3,049	3,600	2,385

Source: Sabeco audited report

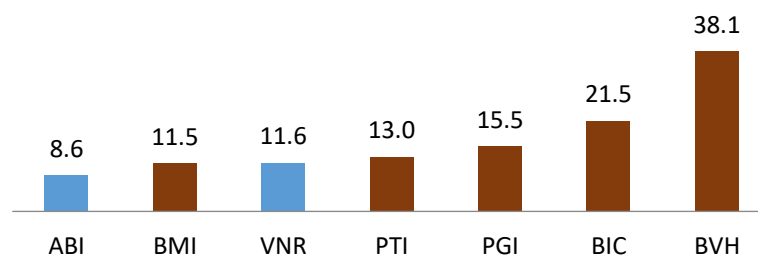
While insurance companies in the Western world are fighting with sluggish growth rates for the past few years, Vietnam's insurance sector is still very young. According to the Vietnam Insurance Association, insurance expenditure per capita is only 1.5% of GDP in Vietnam, compared to the average of 5.2% in Asia. With a population of 92 million people, of which 60% are less than 35 years old, the insurance industry is forecasted to grow substantially over the next few decades. Petrolimex Insurance (PGI) for example, is the second largest automobile insurer in Vietnam with a 16% market share in 2015, up from 12% in 2012. PGI is one of the most aggressive insurance companies in Vietnam in terms of product distribution, as for example how they sell motorbike insurance on the street by insurance brokers.



Insurance broker on the streets of HCMC, Source: VN Economics

The AFC Vietnam Fund is holding two insurance stocks in its portfolio, Agricultural Bank Insurance (ABI), one of the fastest growing insurance companies, and Vietnam Reinsurance (VNR), of which Swiss Re holds a 25% stake in it.

Insurance sector P/E



Source: Viet Capital Securities

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Economy

Vietnam's GDP growth hit 6.4% in the third quarter of this year, up from 5.48% and 5.78% in the first and second quarter. Consequently, the GDP in the first nine months of 2016 increased by 5.93%, slightly lower than the same period of last year, mainly due to a weaker agriculture sector in the first half year, which was affected by a severe drought. The General Statistic Office of Vietnam (GSO), expects the Q4 GDP growth to come in higher than Q3.

The State Bank of Vietnam (SBV) reported in September a healthy improvement of foreign reserves. Vietnam was able to increase the reserves by USD 10 billion in the first nine months to a new record high of USD 40 billion which will certainly be an important factor to keep the Vietnamese Dong stable.

CPI jumped strongly in September, mainly due to higher education fees. September CPI rose 0.54% MoM and 3.34% YoY, according to the latest data released by the General Statistics Office (GSO). Education had the strongest monthly inflation at a rate of 7.19% in September as the new school year started under new education policy.

FDI disbursement maintained its growth momentum while new registered FDI started to slow down slightly in the 9M of 2016. During the same time, total new and additional registered FDI reached USD 16.43 billion, decreasing by 4.2% YoY. However, FDI disbursement continued to grow at USD 11.02 billion, gaining by 12.4% compared to the same period last year.

In September, Vietnam economy saw a slowdown of exports by 6.8% compared to August, but up 9.0% against the same period last year. In the first nine months, total exports reached USD 128.2 billion, increasing 6.7% compared to the same period in 2015. Exports in September were USD 15 billion, -17.4% MoM, partly because of Samsung's problems with the new Galaxy Note 7. Another factor was from the effect of the bankruptcy of the Korean Hanjin Shipping Company which had about 10% market share in Vietnam. However, this is only a short term effect and we expect that exports will improve over the coming months. Imports in the first nine months hit USD 125.4 billion which brings the total trade surplus to USD 2.8 billion.

Most banks in Vietnam reduced their deposit interest rates in September after the government announced that they have already sold enough treasury bills this year. Lower interest rate should also help to boost the economic growth in the last three months of 2016.

Macroeconomic Indicators				
	2013	2014	2015	Sep-2016
GDP	5.42%	5.98%	6.68%	5.93%
Industrial production (YoY)	5.90%	7.60%	9.80%	7.40%
FDI registration (USD bn)	21.6	20.23	22.76	16.43
FDI disbursement (USD bn)	11.5	12.4	14.5	11.02
Exports (USD bn)	132.2	150	162.4	128.2
Imports (USD bn)	131.3	148	165.6	125.4
Trade balance (USD bn)	0.9	2	-3.2	2.8
Retail sales (YoY)	12.60%	10.60%	9.50%	9.50%
CPI (YoY)	6.03%	1.86%	1.34%	3.34%
VND	21,125	21,405	22,540	22,340
Credit growth (YoY)	12.50%	14.00%	17.30%	9.10%
Foreign reserves (USD bn)	32	36	36	40

Source: AFC research, SSI, GSO, SBV, VCB

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Other developments

While volatility is typically always higher in the month of September, as seen in many developed markets last month, Vietnam was pretty stable. An encouraging technical market picture and the recent foreign buying should provide investors with confidence, especially as the fourth quarter is usually a strong seasonal period for equity markets.

Subscription

The subscription deadline for this month will be the 25th October and if you would like any assistance with the investment process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

Estimated NAV as of 30th Sept 2016

NAV	USD 1,680*
Since Inception	+68%*
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%	+3.00%	+0.13%	+0.0%*				+18.39%*

* 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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