

## 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>	Vicente Nguyen
<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>	Ernst & Young, 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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Due to a local holiday, there were fewer trading days in the first half of this month and the market hardly moved so far. The indices in HCMC and Hanoi were up 1.1% and 1.7% respectively, while the NAV of our fund was up 1% at approximately USD 1,754, according to internal calculations.

### Market developments

The index gains in the first half of this month were not impressive in terms of percentage change but they certainly helped us to confirm that we are in a continuous upward trend. Especially the secondary indices are showing renewed strength which is helping our diversified portfolio. The market breadth has only seen slight improvements over the last few days especially in the HCMC market, while the Hanoi and the speculative third market, UPCOM, are both showing signs of strengths after its recent consolidation.



UPCOM Index May 2015 to May 2017; Source: VietCapital Securities

Solid macro-economic data and many good first quarter results from our holdings are supporting the positive bias. After our first analysis of the Q1 results of our companies, a conservative full year 2017 earnings estimate of our portfolio of around 80 stocks shows that the unweighted median price earnings ratio is around 8.4 and the unweighted median price-to-book ratio currently stands around 1.1. The average debt ratio of our companies is much lower than the market average, and hence the risk of corporate default is also much lower.

	P/E	P/B
AFC Vietnam Fund*	8.4	1.1
Ho Chi Minh City Index	15.7	2.2
Hanoi Index	11.0	1.0

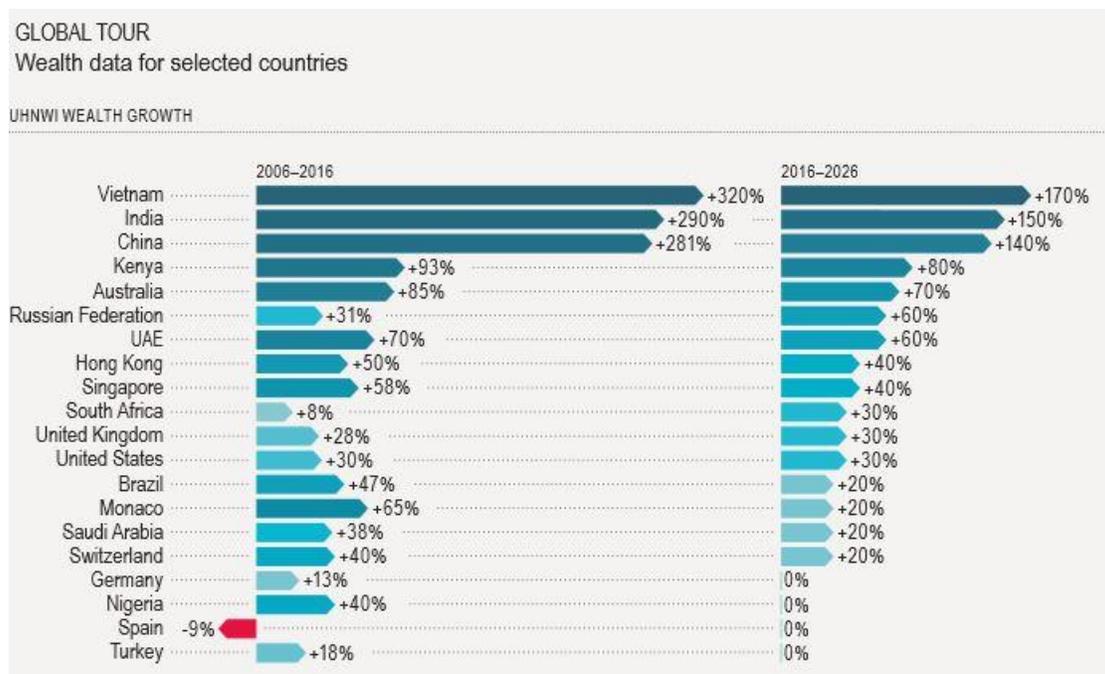
Sources: AFC, Bloomberg  
\*unweighted, median

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Over the past few weeks we exited a few smaller and less liquid positions through block trades at or above market prices. It is interesting to note that more and more potential block buyers of smaller companies are approaching us. It certainly seems that some of our larger shareholdings in smaller companies have a strategic value for certain investors and hence they are willing to pay a premium above market prices for block offers. This enables us to exit those initial investments of our fund with substantial profits, an encouraging sign. Since we are able to replace these positions with stocks which are even more attractively valued according to our model, we are happy to switch out of some of these investments during times when we see continued strong interest and inflows into our fund.

### Other developments

The impressive rise of the Vietnamese economy in recent years has naturally resulted in higher incomes across the country. Of course, we also see a very positive wealth effect on the high end of the income curve, as well as an impressive rate of growth among high net worth individuals (HNWI).



Sources: *New World Wealth, World Bank, knightfrank.com*

Vietnam has the fastest growing HNWI community in the world and not all of them are making their fortunes in the stock market, but we will certainly try hard to see that our investors will participate in these expected positive developments in a similar way...

### Economy

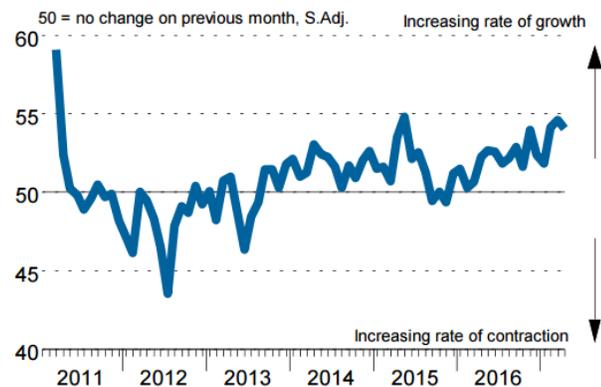
**Strong demand for production materials** and supportive free trade agreements will continue to boost trade. April saw a trade surplus of USD186 million thanks to Samsung's new product line exports, which surged 41.8% MoM to USD4.38 billion, accounting for 25% of total exports. In 4M 2017, exports increased 16.8% to USD62 billion (4M 2016: +6.5%), while imports surged 24% YoY (4M 2016: -1.4%) to nearly USD64 billion, leading to a trade deficit of USD1.9 billion

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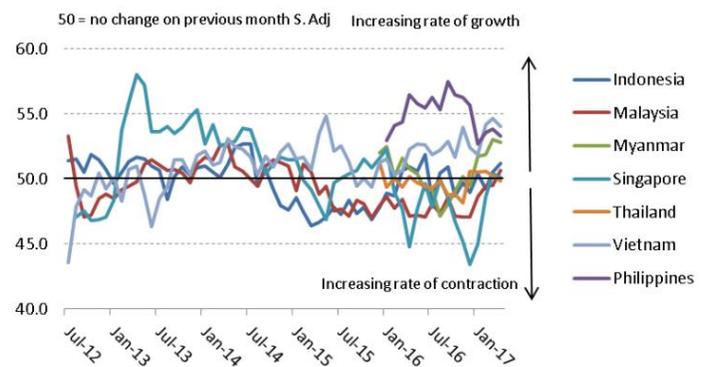
**Credit growth:** FY2017 credit growth likely to achieve the 18% target. Through April, credit growth in the banking system increased around 4.9% YTD versus a rise of around 3.3% in 4M 2016. In the coming months, lending rates in priority sectors are expected to fall, especially in the high-tech agriculture sector, with a VND100 trillion package expected to be lent out at 0.5% to 1.5% below current lending rates.

New orders rise sharply amid **record export growth**. A sharp rise in new orders pushed export growth to record levels with new business from abroad increasing. The rate of growth in new export orders has grown continuously since December 2015. The headline Nikkei Vietnam Manufacturing Purchasing Managers' Index (PMI) – an indicator of manufacturing performance – stood at 54.1 in April, down slightly from 54.6 in March but still signaling a solid monthly improvement at the start of the second quarter of the year. Business conditions have now improved in each of the past 17 months and Vietnam continued to lead the ASEAN PMI in April 2017.

### Nikkei Vietnam Manufacturing PMI



### National Manufacturing PMI



Thanks to the record rise in exports in April, the manufacturing sector in Vietnam remains the star performer at the beginning of Q2 2017.

Moody's changes the outlook on **Vietnam's ratings to positive from stable**, ratings affirmed. On April 28, 2017, Moody's Investors Service has affirmed the Government of Vietnam's B1 issuer and senior unsecured debt ratings and revised the outlook to positive from stable. This was mainly due to strong foreign direct investments, fostered by ongoing economic reform and the continuous efforts to diversify the economy and enhance economic performance. Moody's also expects that the macroeconomic and external stability will be maintained, and hence a stabilization of government debts is expected around current levels.

### Subscription

The subscription deadline for this month will be the 25<sup>th</sup> May 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 15<sup>th</sup> May 2017

NAV	USD 1,754*
Since Inception	+75.4%*
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	+1.90%	+1.10%	+1.94%	+1.03%	+1.0%*								+7.2%*

\*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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