



## 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>	KPMG, Cayman Islands
<b>Administrator</b>	Amicorp Fund Services Asia Pte Ltd., Singapore
<b>Legal Advisor</b>	Ogier, Hong Kong

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June was one of the quietest months in the recent times. Declining stock market volumes and low volatility despite ongoing political tensions with China confirm our view that investors slowly but surely return to business as usual. Meanwhile more Chinese oil rigs were set up in the disputed territory and it looks like international courts will be eventually involved with this conflict. In a few years' time we will probably see countless oil rigs in the South China Sea, and it will only be a matter of which nationalities will control and operate the oil exploration.

Increasing reports about privatizations are dominating the local business news. In addition to Vietnam Airlines and Vinatex, a leading textile company whose IPO will take place in the coming weeks/months, some further 500 privatizations of companies are planned by the end of 2015, which equates to roughly one IPO per day. To what extent this can realistically be done successfully remains to be seen. Many IPO's have no participation of foreign investors, since prospectuses are normally in Vietnamese only and also the attractiveness and profitability of the companies is often unsatisfactory. In addition to that, there is this peculiarity in Vietnam that the time of the IPO announcement and the first trading day takes between several months and a year, instead of the usual 3-14 days like in most countries. Our participation in IPO's will therefore be very selective until the market condition for public offerings is more favourable.

Before the start of the Q2 reporting season, the devaluation of the Vietnamese Dong and the forthcoming privatizations were the main topic of the month. As pre-announced a few months ago the Vietnamese Dong was devalued in June by 1% to around 21'300 VND to 1 USD in order to meet the demand of the export economy. As mentioned last month, currency movements of that magnitudes are on the open foreign exchange market normal daily movements. The fund valuation however is affected directly by this, even though the prices of shares in the export sector didn't react to this news.

According to our internal estimates, the June NAV should be slightly above USD 1'140. On the other hand the indices in Ho Chi Minh and Hanoi, which are obviously calculated in Vietnamese Dong, increased during June by around 2.8%. After the fund showed a significant outperformance in the previous month, this months' slightly negative difference to the indices is mainly due to the devaluation and once again due to the increase of a few large index weighted shares. Even on days where the indices closed in positive territory there often was a negative market breath by a wide margin. We hold approximately 10% of all listed shares, and hence on such days there is no way to make any money. Most likely the main reason is the still cautious attitude of the Vietnamese investors who have not yet returned to the stock market due to uncertainties with China.

Meanwhile foreign investors pumped new money into the market and concentrated their purchases on a handful of stocks. However, over the last few days we were seeing more interest from local investors in some smaller companies. This fact combined with an attractive chart technical situation further increases our confidence for the coming months.



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Here is an example of one of our investments in the field of infrastructure/housing, which is trading well below book value, although they were able to increase sales and profits by 50% in the difficult last three years and has a dividend yield of 10% and a price/earnings ratio of around 5x. If the second quarter earnings results are again positive, we then could see small- and mid-caps rally very sharply since most of them are still trading between 20% to 40% below their March peaks. Generally the mood remains very positive and as confirmed on the recent Vietnam Investment Forum in Ho Chi Minh the consensus opinion is that Vietnam is very well positioned and will be among the long-term beneficiaries in the region.



### NAV as of 30<sup>th</sup> June 2014

NAV	USD 1,146.15
Since Inception	+14.62%
Inception Date	23/12/2013

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