



AFC VIETNAM FUND UPDATE

Fund Category	Vietnam Public Equities
Country Focus	Vietnam
Subscriptions	Monthly at NAV (five 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 NAV appreciation with high watermark
Fund Domicile	Cayman Islands
Launch Date	11 December 2013
Custodian Bank	Viet Capital Securities, Ho Chi Minh City
Auditor	KPMG, Cayman Islands
Administrator	Amicorp Fund Services Asia Pte Ltd., Singapore
Legal Advisor	Ogier, Hong Kong

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July was as expected a quiet month in terms of volume, with comparatively low volatility. The Ho Chi Minh index had a quick upward move due to a rumour about a JV of Apple with a local technology company which has been denied quickly and the strong performance in a few companies which are already 49% foreign owned. The overall increase of around 3% in the Saigon and 2% in Hanoi index doesn't reflect the broad market and hence we must be satisfied with an expected NAV increase of about 2% this month.

The economy however remains on the road to recovery. Foreign investments helped to improve the industrial production (+7.5% in July yoy) and the trade balance. There are now clear signs that domestic demand is also picking up. In the first half year of 2014, retail sales rose by 11% to almost USD 80 billion and the consumer confidence rose to 134.1 in July from 131.0 in June. 55% of the Vietnamese families believe in an improvement in their financial situation over the next 12 months, while only 6% expect a decline. Quite a different picture in Europe! Only the Purchasing Managers' Index declined, but still remains on a level of expansion. The increase in the credit rating by Moody's from B2 to B1 reflects the improved overall situation of Vietnam.

It is impressive to see the international confidence in the economic future of Vietnam. More and more world leading companies are betting on Vietnam. If companies such as Intel, Samsung, and various textile companies shift their major production sites to Vietnam and are hence economically dependent for years, this should strengthen our confidence too. With an increase in exports of 14% in the first seven months and a trade surplus of USD 1.26 billion, there are now mainly higher quality products that are gaining in importance. In addition to Samsung, which will soon manufacture more than half of all their smartphones in Vietnam, also Intel has recently announced impressive figures. Already by the end of next year, 80% of all their computer chips will be produced in Vietnam. According to Sherry Boger, CEO of Intel Vietnam, low error rates and the rapid adaptation of the local workforce to Intel guidelines were the main reasons for this fast development of their only four years old Vietnamese factory. As an example, the same process took over 15 years in their Chinese Chengdu factory.

One would assume that ultimately also listed local companies will benefit from this dynamic economic development. About two-thirds of our holdings have now announced their results for the second quarter of 2014. Out of these nearly 50 companies only 3 have so far disappointed, while the remaining companies reported decent to very good results. We are also in the process to invest in some new companies, such as for example a turnaround story of a pharmaceutical company, which trades 50% below its book value with a P/E ratio of 5.5x according to our current forecast and therefore seems to be extremely undervalued.



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While Ho Chi Minh has made up almost all of its losses from May, Hanoi is still trading almost 15% below the interim high in March. Mid-cap stocks should therefore benefit from a further increase in the second half of this year. Over the last few days we could also observe again the relative independence of Vietnam from major U.S. and European stock markets. The recent sell-off, which dragged some of these markets into a negative overall performance for the year 2014, left Vietnam's stock markets completely unscathed so far. This will most likely continue as long as there is no dramatic sell-off as in 2008.

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