



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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Although the positive turnaround in the stock markets was not surprising, its magnitude was quite extraordinary. The 25th jubilee of a “none-rate-hike” in the US was celebrated with large gains especially in emerging stock markets and currencies which were formerly talked into the ground. In such a scenario, markets which previously have fallen the most, are typically the major beneficiaries. A very good example is Brazil, which has lost about 50% in USD terms over the past 12 months and then was able to recover 10% within a few days. Vietnam, which didn’t suffer as much over that period, mainly due to very positive macro-economic data, rebounded therefore not as much, despite the breakthrough in the TPP free trade agreement. There was also reduced pressure on the Vietnamese Dong, which even managed to strengthen a little bit.

After all, the two indices rose by 5.4% (Ho Chi Minh City) and 4.1% (Hanoi). The biggest gainers were stocks which should benefit from TPP and stocks which were previously losing above-average. Even though, some of our holdings experienced a small correction, due to the fact that they were previously rising against the trend. Nevertheless, according to internal calculations, our NAV recovered significantly and stands now at approximately USD 1,391 (+ 3.2%) and is almost at its peak again, in contrast to the two main indices.

We currently see a lot of positive market signals. Over the past few weeks the buying interest in our companies has risen significantly and the overall market shows positive market breadth (positive advance decline ratio) and for the first time this year smaller stocks have shown some strength, although the annual performance in USD of most Vietnamese indices with the exception of Ho Chi Minh City is still about -3%. In addition to the better than expected economic growth for the first 9 months of 6.8%, the government surprised the market positively by announcing the planned full divestment of 8 listed companies, of which we are holding 3 of them.



Hanoi Market Breath; Source: stockbiz.vn



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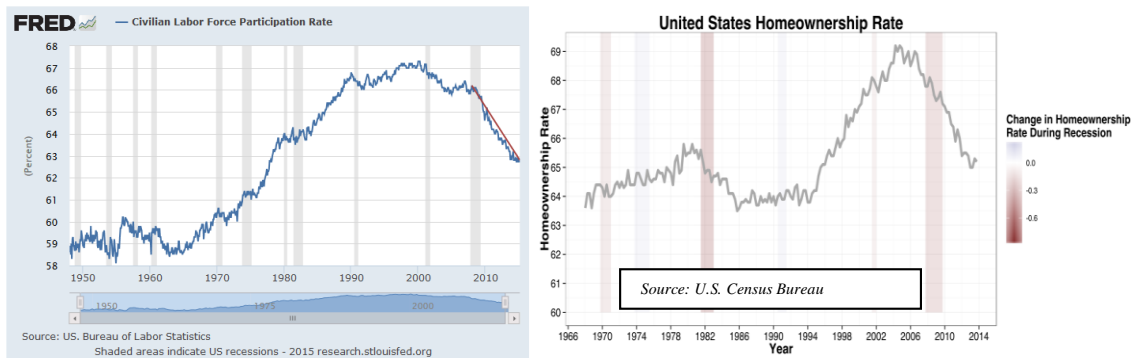
Over the past 12 months, analysts have published for the first time various research reports of companies we are holding. The result was often new demand and rising stock prices, as shown best in the example below of a transport company which has doubled since our purchase last year. They just announced quarterly results with more than 60% growth. Given this growth, the stock with a price / earnings ratio of 11x (2015e) is still by no means expensive.



Source: Viet Capital Securities

Is this now our often quoted recovery of Q4 or will there be a further correction? There are of course still many uncertainties in the global economy, but it only becomes really dangerous when everybody is positive and not willing to see any risks. Besides the relatively unquantifiable situation in China (but that is no change to 10 or 20 years ago!), which has already left its massive impact primarily in commodities, the current economic recovery especially in the United States is mentioned, and how different and not comparable to previous economic cycles it is. This statement is basically true, but then again, what kind of economic cycle was ever comparable with the previous ones? Whether interest rates, causes for recession, or underlying strength of growth - each cycle is different and many arguments for a weak economic recovery can be viewed under a different angle. Many people point out that in this cycle the real labour market is weaker than officially declared, because fewer people are participating in the work force and the jobless rate therefore is understated. Compared to the last cycle, this assertion is absolutely correct, but in a long-term comparison this theory can be quite easily be refuted. In the big economic boom of the 50s and 60s, there was no increase in the participation rate, only in the 70s more (women?) participated and during the economically strong upswings of the 90s and early 2000s this share stagnated again.

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There is quite a similar picture when looking at the share of private home owners. This share has already declined significantly before the financial crisis and even here - when observing a long-term comparison there is no relation to the economic cycles, as shown in the above graph.

There are certainly much bigger brainiacs than me which already looked at possible reasons for all of this - but all these statistics tend to overlook one deciding factor: changes in society and the human herd instinct that has always been present in the psyche of mankind. People develop and change. For example, whether the up and coming "sharing economy" is facing a breakthrough or not - much less people of the younger generation, especially in the cities, don't "have to" still own a car, although they are more affordable than in the past. Access to work, family and the consumer behaviour today is much different than 10 or 20 years ago. Accordingly one has to be very careful when doing historical comparisons and graphics on this subject.

Vietnamese people are of course not immune to all this and are changing rapidly, given the fast economic and political changes - perhaps even faster than in other countries. Although a fast adaption of consumer behaviour of young Vietnamese people to western style can be observed, there is a great "hunger" and motivation to advance, given the still early stage of economic development and wealth in Vietnam. These dynamic characteristics and the great demographic advantage in countries such as Vietnam (similar to the "baby boomer" generation in Europe and the USA) lead us to believe that we will see a booming development, similar to the last 1-2 generations in the developed world - including rising stock market valuations.

The subscription deadline for this month will be on the 26th October 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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