

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

The first weeks after the surprising outcome of the US presidential elections were characterized by strong fluctuations across most asset classes. Many emerging and frontier countries suffered outflows; also Vietnam with around USD 80m. The weak Vietnamese currency, which lost around 1.5% against the US dollar, is in fact merely a consequence of the strong USD against the majority of other currencies. The Ho Chi Minh City Index lost about 3% on a USD basis and the index in Hanoi, where most small-caps are listed, declined by 3.5% in USD terms. According to internal calculations, the NAV of the fund advanced by +0.8% to USD 1,664 (+17.3% YTD). It is quite interesting to see the magnitude of FX movements and its impact on performance numbers, like for example, if your home currency is EUR, then the fund is up +4.4% this month (+20.0% YTD), or CHF +3.7% (+19.1% YTD) or GBP -0.8% (+38.8% YTD).

Market developments

	Index	FX	Net (USD term)
Brazil	-4.1%	-7.7%	-11.8%
Indonesia	-6.4%	-3.4%	-9.7%
Philippines	-5.7%	-2.3%	-8.0%
Europe	0.8%	-4.0%	-3.1%
Thailand	-0.6%	-2.0%	-2.6%
Vietnam	-0.1%	-1.9%	-2.0%
Japan	7.0%	-7.7%	-0.6%
UK	0.0%	-0.8%	-0.8%
USA	3.4%	0.0%	3.4%

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Currency and Index movements from 8-25 November

Source: Bloomberg

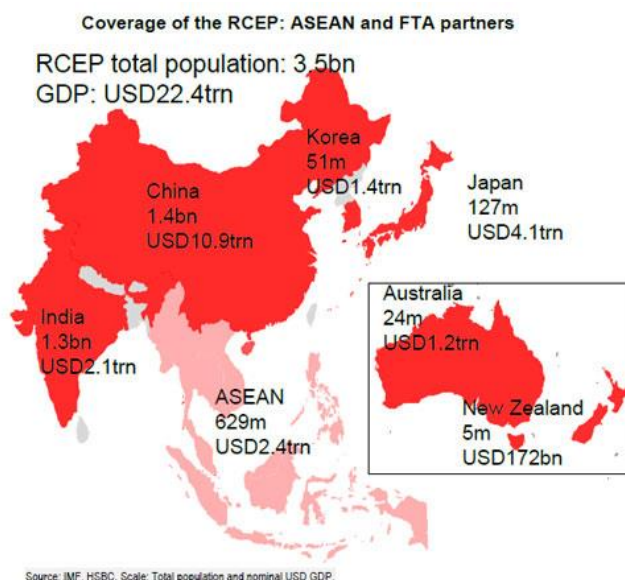
After Trump's win, people are now expecting higher inflation, rising bond yields and a strong US Dollar along with protectionist action with lower global trade, which all led to a sharp correction in emerging markets, totally in contrast to the Baltic Dry Index, as shown below, which is showing a much different picture.



Baltic Dry Index; Source: Bloomberg

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Not only did the Baltic Dry Index go up by 300% from its lows in February, it also rose strongly since the election – along with a strong rise in copper prices, which is often seen as a good indicator for the global economy, especially for China. With the US most certainly dropping out of the TPP trade pact, maybe China has now all the reasons to praise Trump as their best economic and political promoter? China could now play an even more important role in the region if they will get their act together, and become more proactive in times where the US seems to focus on its domestic economy. This would accelerate an already long established trend – a growing Chinese presence in global politics and economic dominance, with already a strong and established position in Asia and Africa. At the same time, Europe is still busy with its own problems and a political course which is pushing Russia from an economic point of view more towards China/Asia. One can of course like or dislike this development but we can only ask ourselves what this would mean for our investments. At the same time, there are many other trade pacts in the making or almost finished. The Regional Comprehensive Economic Partnership (RCEP) for instance, could be a viable alternative for Vietnam in the likely event that the TPP fails to go ahead – and this one includes China!



An even bigger, but currently very unlikely Free Trade Agreement of Asia Pacific (FTAAP) is an initiative nurtured for 20 years by APEC that links 21 economies around the region, including China and the US. The FTAAP covers 60 per cent of global GDP and 50 per cent of world trade. The bulk of the FTAAP negotiations are completed and the final chapters are being worked on, but possibly now without the US.

While emerging and frontier markets are still digesting the big moves in bonds and currencies over the past couple of weeks, which triggered large outflows, especially in ETFs, we had one of our best months in terms of new money inflows into our AFC Vietnam Fund. The interest in Vietnam's market is still unscathed, with many new IPO's coming to the market. For example:

Construction Joint Stock Company No. 1 (PC1) - The key player in power construction

PC1 was listed on the Ho Chi Minh Stock Exchange on 16th November. The stock price surged to a peak of VND 49,050 per share before correcting to around VND 36,500 per share. Based on its dominant market share, strong revenue growth and the government's plan to triple power capacity over the next 15 years, the stock is trading at 11.0x P/E and 1.4x P/B.

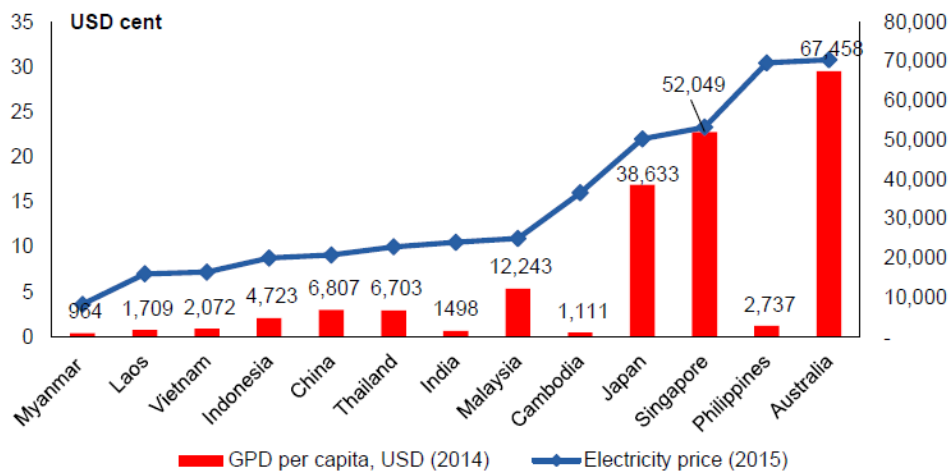
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PC1 is a leader in the field of constructing power transmission lines and substations in Vietnam with 50 years of experience. Its key businesses include construction of transmission projects, substations, electrical steel tower production and hydro power plant construction and operation. In 2015, total revenue of PC1 hit a record high of VND 3,101 billion, of which power constructions contributed 75%, steel tower manufacturing 21% and other activities 4%.

Huge potential industry outlook

Vietnam's electricity tariffs are only about half of its regional peers and belong to the most attractive power prices in Asia Pacific. With a GDP per capita of slightly more than USD 2,000, electricity prices in Vietnam are approximately 8 USD cents per kwh. The Philippines for example, with a 30% higher GDP per capita have an electricity price which is almost 4x higher.

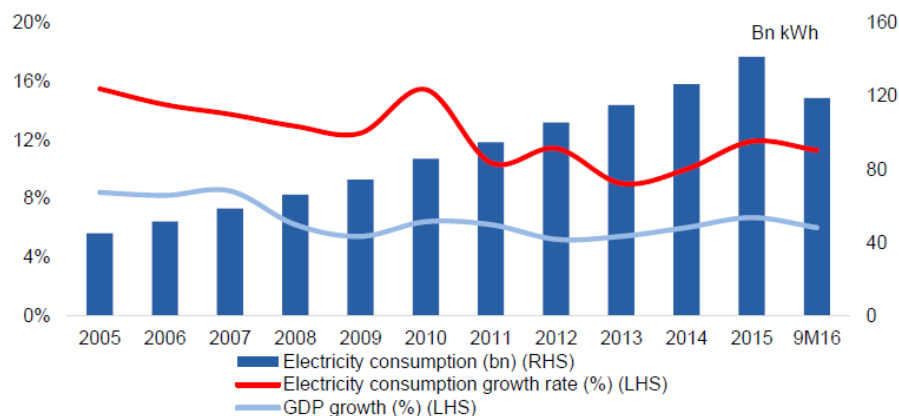
Vietnam's electricity price is still low compared to other Asia Pacific Countries



Source: Worldbank, EVN & VCSC

Along with Vietnam's strong economic growth, electricity demand has also increased substantially over time. Electricity consumption saw stable growth at 10%-12% per annum over the past five years and it is expected to grow at 10% over the next decade.

Substantial growth in electricity consumption in recent years

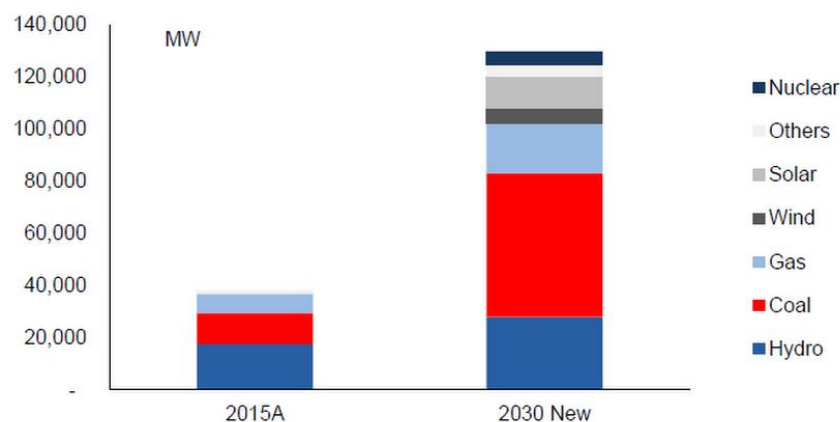


Source: EVN & VCSC

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According to the Power Development Program VII, the total capacity in the power sector is expected to triple by 2030. In particular, capacity for hydro plants is estimated to increase 59% while capacity for gas and coal thermal is set to soar by 3x and 5x, respectively. Coal thermal power will be the key source of Vietnam's power supply by 2030, and its huge coal reserves are expected to meet Vietnam's surging demand for more than a century.

Power generation outlook



Source: EVN & VCSC

A few days ago, the Ministry of Industry and Trade signed an investment agreement with Marubeni from Japan and KEPCO from South Korea, for a USD 2.3 billion thermal power project under the build-operate-transfer (BOT) format. The power plant will be located in Thanh Hoa Province's Nghi Son Industrial Zone, and will have a total capacity of 1,200 MW, including two 600 MW generators running on coal. The project is among Vietnam's largest BOT thermal power projects and is a part of long-term power development master plan.

PC1 key financial data

Items (VND bn)	2012	2013	2014	2015	9M-16
Net revenue	1,407	2,024	3,100	3,101	2,100
Gross profit	225	419	667	429	414
Operating profit	77	186	549	281	291
Net profit	64	142	425	246	262
Owner's equity	322	462	864	1,370	2,028
Total assets	1,239	2,120	2,078	3,263	4,239
ROE (%)	19.9%	30.7%	49.2%	18.0%	12.9%
ROA (%)	5.2%	6.7%	20.5%	7.5%	6.2%

Source: PC1 audited consolidated financial statements

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Economy

Most macro-economic numbers in November were fairly stable and within expectations, with the exception of the currency which was driven by the US election results.

Domestic consumption: Retail sales of goods and services rose 9.5% YoY (7.6% in real terms) to USD142.3 billion, compared with 8.3% YoY in Nov. 2015.

Industrial production: The accumulated index of industrial production rose by 7.3% YoY vs. an increase of 9.9% YoY in Nov. 2015.

Trade: Vietnam recorded a trade deficit of USD400 million in November, but the year to date trade surplus is still USD2.8 billion.

Foreign direct investment: Disbursed FDI continued to grow by 8.3% YoY to USD14.3 billion. The leading sector was manufacturing and processing.

Inflation: The Consumer Price Index rose 0.48% MoM and 4.5% compared to the end of 2015. CPI of the transportation sector posted the highest rise among 11 sectors in the CPI basket.

Macroeconomic Indicators				
	2013	2014	2015	Nov-2016
GDP	5.42%	5.98%	6.68%	5.93%
Industrial production (YoY)	5.9%	7.6%	9.8%	7.3%
FDI registration (USD bn)	21.6	20.2	22.8	18.1
FDI disbursement (USD bn)	11.5	12.4	14.5	14.3
Exports (USD bn)	132.2	150.0	162.4	159.5
Imports (USD bn)	131.3	148.0	165.6	156.6
Trade balance (USD bn)	0.9	2	-3.2	2.9
Retail sales (YoY)	12.60%	10.60%	9.50%	9.50%
CPI (YoY)	6.03%	1.86%	1.34%	4.50%
VND	21,125	21,405	22,540	22,700
Credit growth (YoY)	12.5%	14.0%	17.3%	11.8%
Foreign reserves (USD bn)	32	36	36	40

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

According to many polling and election experts, people were voting for Donald Trump because they wanted a change and that was also the biggest fear of the financial markets. But so far his new cabinet is filled with billionaire bankers (mostly Goldman Sachs) and lawyers. Sen. Elizabeth Warren calls Steve Mnuchin, Trump's pick for Treasury Secretary, "the Forrest Gump of the financial crisis." It is interesting to note that the sectors with the largest gains on the US stock market TTD (Trump to Date) have been pharmaceutical and financials, or in other words, the old business establishment. Maybe, just maybe, the

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voters will see one day, that Trump is not the president they voted for. But for investors this means that still quite a few things will change, but overall it does not have to be negative. For countries with an open mind and for bilateral trade negotiations such as for example Vietnam, it could mean even bigger opportunities if their politicians are smart enough. Trade and economic activity will not stop, but it will most likely shift. Of course there will be winners and losers, but we are quite optimistic at this stage that Vietnam will be among the winners.

Subscription

The subscription deadline for this month will be the 23rd December 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 November 2016

NAV	USD 1,664*
Since Inception	+66.4%*
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%	+0.8%*		+17.3%*

*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.*

DISCLAIMER

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