

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	Vicente 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	Ernst & Young, Hong Kong
Administrator	Custom House, Singapore
Legal Advisor	Ogier, Hong Kong
ISIN	KYG0133A1673

Contact Information

Asia Frontier Capital Ltd.
www.asiafrontiercapital.com

Mr. Andreas Vogelsanger, CEO
Asia Frontier Capital (Vietnam) Ltd.
Tel: +66 84435 7472, Fax: +852 3904 1017
av@asiafrontiercapital.com

Registered Office:
c/o Intertrust Cayman Islands
190 Elgin Avenue, George Town
KY1-9007, Cayman Islands

Hong Kong Office:
Asia Frontier Investments Limited
905, 9th Floor, Loon Kee Building
267-275 Des Voeux Road Central
Hong Kong



News about a higher Vietnam weighting in the MSCI frontier market index and rumors that Vietnam will be added to the MSCI watch list for a potential upgrade to emerging market, led to a strong buying interest in blue chip stocks on both exchanges. While some banks with a fully used foreign ownership quota were advancing by 10-20% over the past month, but also brokers, some of which we own, had a similar run and pushed up especially the Hanoi-index. In May, the indices in HCMC and Hanoi were gaining 2.8% and 4.9% respectively, while the NAV of our fund was up 3.0% to another record high of approximately USD 1,788, according to internal calculations.

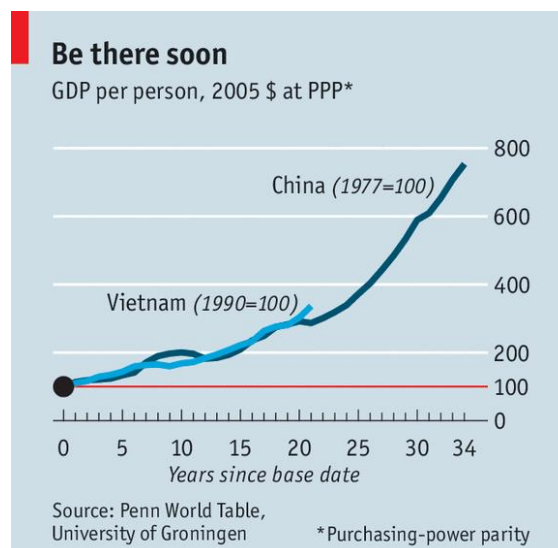
Market developments

We decided to sell two more of our oldest investments at very attractive prices due to an increased appetite in the small and midcap segment. We believe that these two companies are no longer as inexpensive as the rest of our portfolio and we have therefore increased our position size in some of our existing stocks according to our investment model. Additionally, we found some new and attractively valued midcap stocks which we have added to our portfolio.

Vietnam – the most compelling investment case since China’s stock market evolution twenty years ago

At any given time, there are numerous investment opportunities across the globe. For example, US stocks could see further expansion in valuation given their leading position in innovation, Europe could come out of the doldrums they have been stuck in for the past 10 years and finally see some economic growth again, but Emerging Markets in particular are looking better than they have in six years. Vietnam specifically is still one of the very few places in the world where all prerequisites are given for continuous growth and financial gains over the long term and we expect them to follow and participate in the 20-year long China success story.

Vietnam is still in the very early stage of a long-term upward trend, both in terms of economic growth and evolution of financial markets. The comparison with China is sometimes seen as overdone by many people, but in our view, it is most appropriate and we would even make the argument that Vietnam is in many respects in a more advantageous situation than China was 20 years ago.

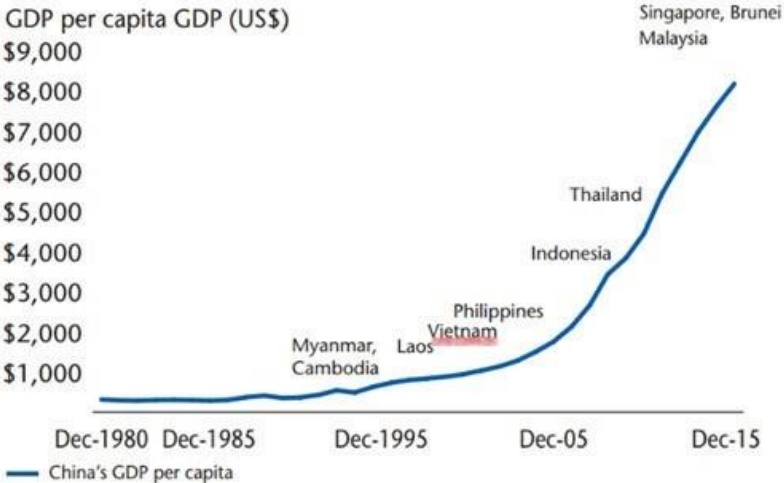




AFC VIETNAM FUND UPDATE

Within ASEAN, Vietnam has a long way to go to catch up with Thailand, for example, with which it has a growth advantage of around 3-4% against. We estimate it will take around 25 years, or a full generation, for Vietnam just to catch up with the level of Thailand.

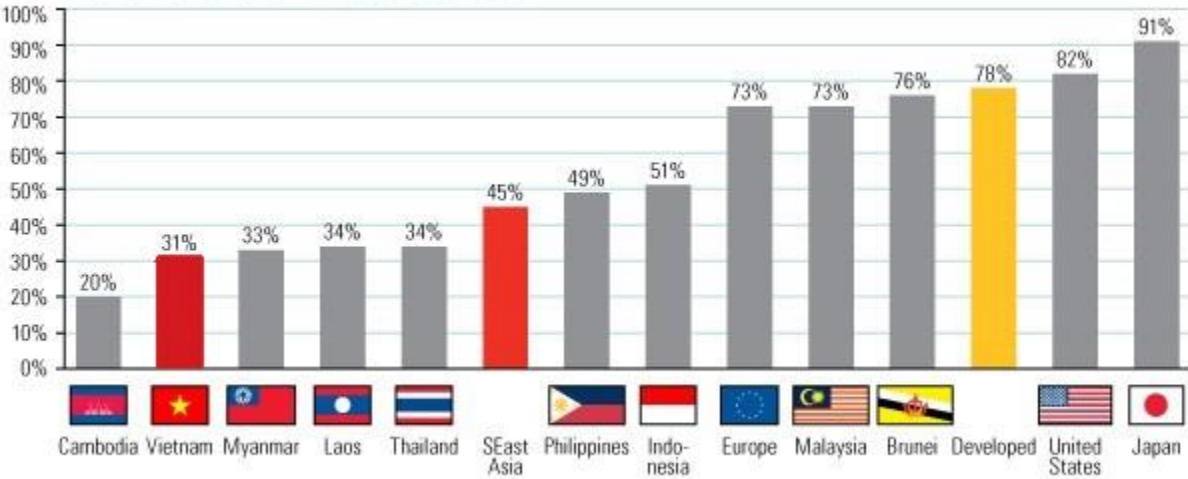
FIGURE 2. ASEAN IN THE CONTEXT OF CHINA'S GDP PER CAPITA EVOLUTION



Source: Matthews Asia

When travelling across Vietnam one can observe a very young, motivated and well-educated population, which certainly underpins the country's high growth prospects. Public spending on education is about 6.3% of GDP, two percentage points more than the average for low and middle-income countries. Although some governments spend even more, Vietnam's expenditures have been well focused, aiming to boost enrolment levels and ensure minimum standards. In global rankings, 15-year-olds in Vietnam beat those in the US and Britain in math and science. Another good sign of the development of a country is the rate of urbanization; Vietnam still has one of the lowest urbanization rates in South East Asia.

Urbanization Remains Low in Southeast Asia



Source: UN Population Database, BofA Merrill Lynch Global Research

AFC VIETNAM FUND UPDATE

Early investors in our AFC Vietnam fund have seen gains of about 79% since inception 3 ½ years ago, yielding over 18% per year. The intention of taking profits is a common human behavior, but the only investment decision for buying or selling an investment, regardless if profitable or at a loss, should be simply the question, if this investment at the current price level is still worth buying or not. In the investment case for Vietnam we are certainly answering this question with a clear “Yes”.

Vietnam could easily be an investment handed over to the next generation as we see high growth rates for at least the next 20 years. Over the medium term we do not even see signs of either overheating or over-speculation and hence the start of the next structural bear market could still be many years away. Vietnam has a relatively well-developed stock market with more than 700 listed companies and will be soon introducing a derivative market. The population is very optimistic about its future economic outlook and according to Nielsen’s Global consumer confidence report it ranks number five in the world. Further, GDP per capita is increasing rapidly and hence it has one of the fastest growing middle class in the region. Nevertheless, Vietnam’s investor base is growing at a healthy and stable rate, given that their still low-income level, and does not show any signs of strong increases like we saw in the highly speculative phase of China, where 100,000 of new trading accounts were opened in a single week!

What really excites us is that we finally observed a confirmation of a breakout on the upside of the market, as described over the past few months.



Hanoi Index May 2009 – May 2017; Source: VietCapital Securities

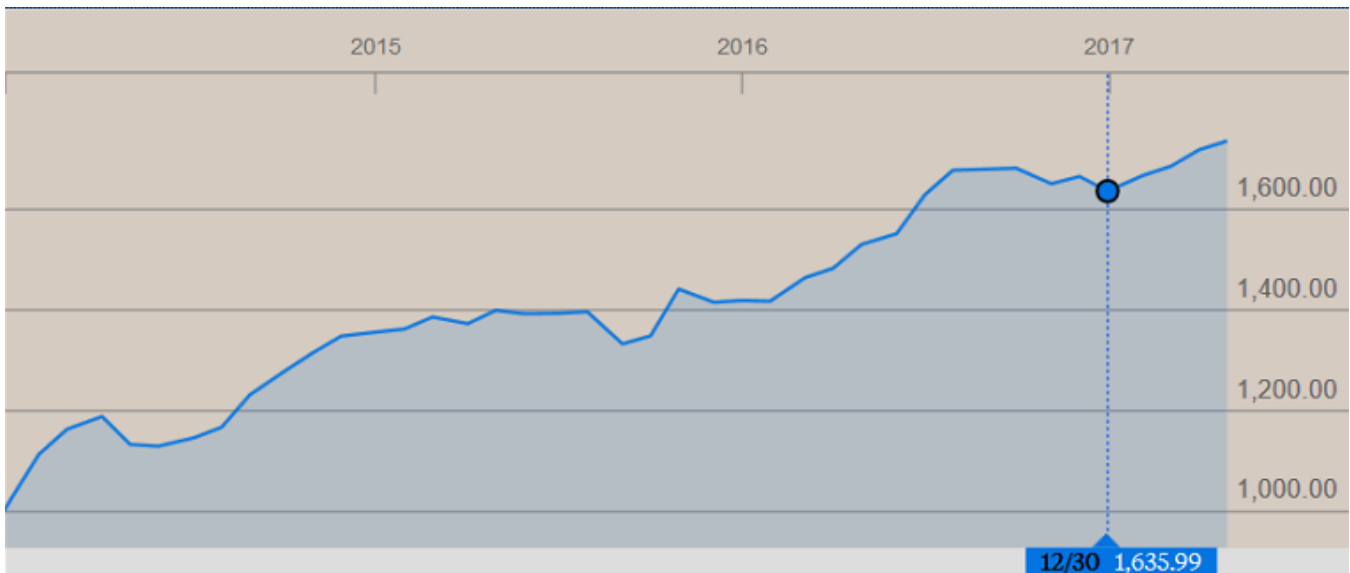
AFC VIETNAM FUND UPDATE

A similar picture can be seen for the VN30-index, which includes blue chips from both main markets.



VN30 Index June 2012 – May 2017; Source: VietCapital Securities

We are neither able to predict the absolute nor relative performance of Vietnam compared to other markets, nor can we predict the future performance of our fund, but given all the information we have, our optimism for a continuation of the very steady fund performance compared to other investment alternatives has not changed.



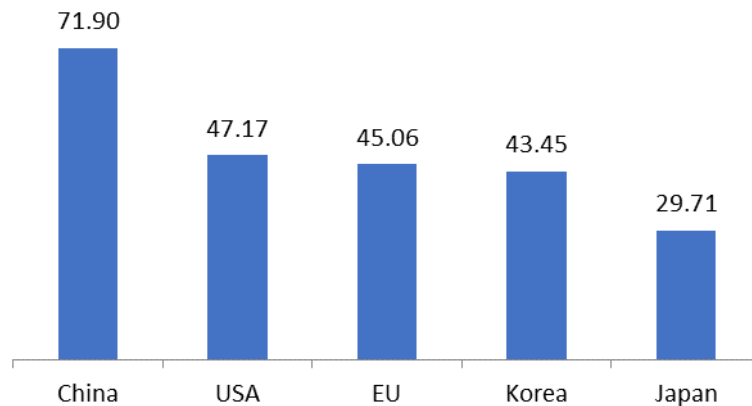
AFC Vietnam Fund – Dec. 2013 – May 2017; Source: Bloomberg

AFC VIETNAM FUND UPDATE

Economy

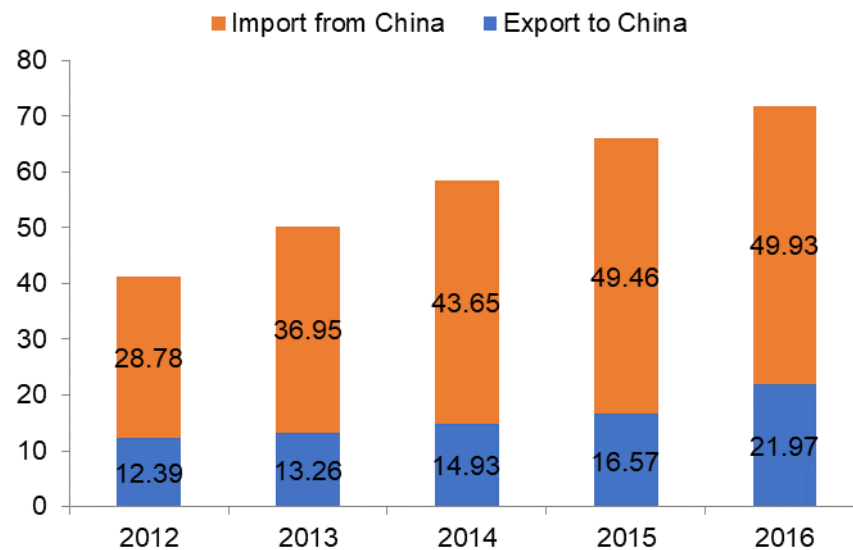
Trade with China is reaching USD 100 billion soon - Mr. Dai Quang TRAN, President of Vietnam visited China to join the multilateral economic forum, “One Belt One Road”, in Beijing. During the forum, Mr. TRAN met Mr. Xi Jinping, President of China, to discuss economic cooperation between the two countries. Both leaders agreed to improve their national relationship in many fields including the economy.

China is still the largest trading partner of Vietnam, representing 20% of Vietnam’s total trade. In 2016, total trade value between China and Vietnam reached USD 71.9 billion, increasing by 8.89%. The second largest trading partner is the USA with USD 47.17 billion, followed by the EU (USD 45.06 billion), Korea (USD 43.45 billion) and Japan (USD 29.71 billion).



Top 5 trading partners of Vietnam in 2016 (USD billion); Source: GSO, AFC Research

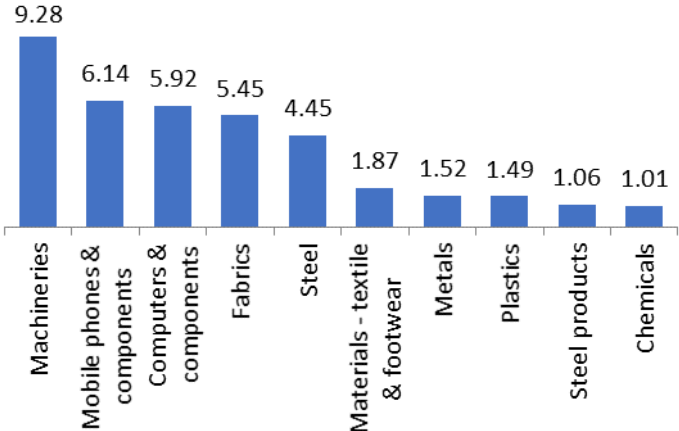
Trade value with China has grown strongly over the last 5 years with average growth of 14.9%, from USD 41.17 billion in 2012 to USD 71.90 billion in 2016. This is expected to reach USD 100 billion in the coming years. However, Vietnam has a trade deficit of USD 27.96 billion with China with total exports reaching USD 21.97 billion in 2016 compared to USD 49.93 billion of imports.



Trade with China (USD billion); Source: GSO, AFC Research

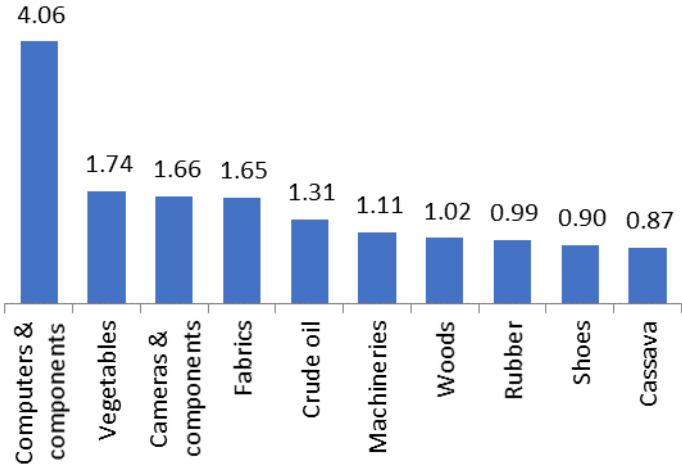
AFC VIETNAM FUND UPDATE

This trade deficit is mainly explained due to the manufacturing shift from China to Vietnam over the past 10 years. This has had the effect that lots of machinery and raw materials have had to be imported as seen in the chart below.



Top import products from China (USD billion); Source: GSO, AFC Research

Machinery imports from China meanwhile reached USD 9.28 billion in 2016,



Top export products from China (USD billion); Source: GSO, AFC Research

AFC VIETNAM FUND UPDATE

Macroeconomic Indicators					
	2013	2014	2015	2016	May-17
GDP	5.42%	5.98%	6.68%	6.21%	5.10%
Industrial production (YoY)	5.90%	7.60%	9.80%	7.50%	5.70%
FDI disbursement (USD bn)	11.5	12.4	14.5	15.8	6.2
Exports (USD bn)	132.2	150	162.4	176.6	79.3
Imports (USD bn)	131.3	148	165.6	174.1	82.0
Trade balance (USD bn)	0.9	2	-3.2	2.52	-2.70
Retail sales (YoY)	12.60%	10.60%	9.50%	10.20%	10.20%
CPI (YoY)	6.03%	1.86%	1.34%	4.74%	3.19%
VND	21,125	21,405	22,540	22,600	22,770
Credit growth (YoY)	12.50%	14.00%	17.30%	16.50%	4.86%
Foreign reserves (USD bn)	32	36	36	41	41

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

Industrial production in May grew at 7.2% against last year to push the accumulated growth in five months to 5.7%. FDI keeps growing strongly in 2017 with great inflow of USD 6.2 billion.

Export volume in May hit USD 17.2 billion, growing by 19.9% compared to the same month of last year. Total exports in the first five months reached USD 79.3 billion, increasing by 17.4% yoy.

Imports also expanded in May to USD 18 billion, bringing the total for the first five month to USD 82 billion, up 23.9% compared to the same period of last year.

One of the most significant figures in May was the acceleration of credit growth, which stands now at 4.86% year to date, which is a record high for the past 6 years.

Other developments

Another development moving Vietnam in the right direction is the country's credit rating outlook having been changed from "Stable" to "Positive" by the two credit agencies, Moody's and Fitch. Vietnam's rating change reflects its strong economic growth, manageable debt levels and continuous strong foreign direct investment inflows.

Subscription

The subscription deadline for this month will be the 26th June and if you would like any assistance with the investment process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

AFC VIETNAM FUND UPDATE

Estimated NAV as of 31st May 2017

NAV	USD 1,788*
Since Inception	+78.8%*
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%	+3.0%*								+9.29%*

*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

Investments in equities in Vietnam are subject to market risk, idiosyncratic risk, liquidity risk, and currency exchange rate risk. The fund may use financial derivative instruments as a part of the investment process. This document does not constitute an offer to sell, or a solicitation of an offer to buy shares in AFC Vietnam Fund. We will not make such offer or solicitation prior to the delivery of an offering memorandum, the operating agreement or articles of association, a subscription booklet, and other materials relating to the matters herein. Before making an investment decision, we advise potential investors to read these materials carefully and to consult with their tax, legal, and financial advisors. The materials have not been reviewed by the regulatory authority of any jurisdiction. Investment is open only to accredited investors as defined by the relevant legal jurisdiction of residence and/or nationality. We have compiled this information from sources we believe to be reliable, but we cannot guarantee its accuracy. We present our opinions without warranty. Past performance is no guarantee of future results. © 2016 Asia Frontier Capital Limited. All rights reserved.