

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

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After recent strong gains, the market has consolidated in the first half of July without having lost its positive “mood.” An interest rate cut and continued upbeat economic news underlined the positive sentiment. HCMC was almost unchanged with a gain of 0.1%, while Hanoi gained 1.3%. Our stocks were quite mixed and according to internal calculations our NAV was unchanged at around USD 1,868.

Market developments

The first half of 2017 was a terrific start for emerging and frontier markets, including Vietnam. With gains of 17% through the end of June, the performance of the main index in Ho Chi Minh City was higher than in previous years with January to June performance of 15% in 2014, 9% in 2015 and 9% in 2016 respectively. Trading volume increased significantly with an average turnover of USD 195m on both foreign inflows and increased local interest.



Over the past 12 months the ETF for emerging markets (EMM US) gained 20% which seems impressive at first glance. However, if we look at the 5-year performance, then it advanced by less than 10% compared with performance in developed markets of 79% for the S&P 500 and 84% (in local currency) for the German DAX. In other words, we just ended a 5-year bear market in emerging markets, as we have stated many times before, and hence we are far away from a euphoric bull market which would be a major warning signal. While many experts pointed out a negative effect from a more dovish FED policy for emerging markets, we actually foresee signs of a top in the USD dollar index. Meanwhile the USD index is almost 7% off of its peak which was reached in January this year and which has released a lot of pressure from many emerging markets, including Vietnam. The Vietnamese Dong has been stable against the USD year-to-date and with easing inflation pressure the government is trying to put more stimulus into the economy through the recent lowering of interest rates as the macroenvironment for the country remains stable.

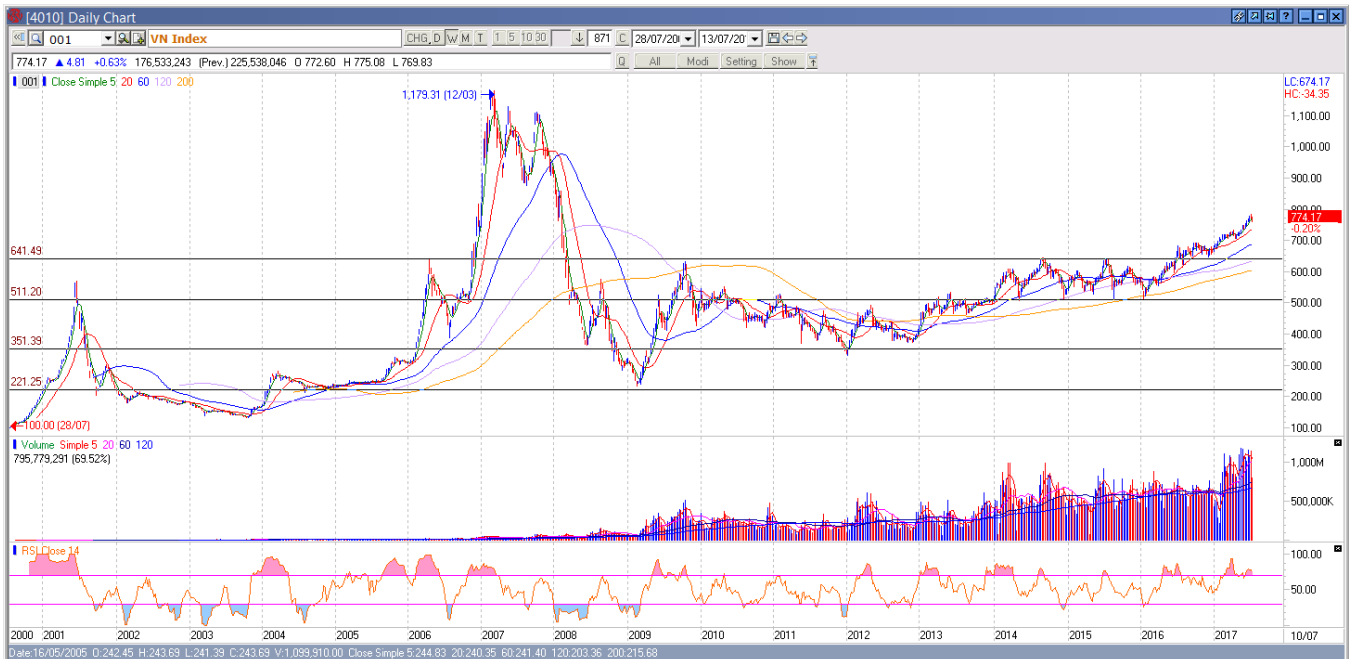


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Source: Finviz.com

Although corrections can happen in the short term, we do not see any imminent negative developments, neither for the economy nor for the stock market. As macroeconomic developments were more or less in line with our expectations when we started the fund in late 2013, we do not see any reason why the old index high can't become just another old high in the not so distant future. Just entering the first half earnings reporting season, we are expecting slight changes in our portfolio, according to our investment strategy, something which is merely an optimization to position ourselves to capture future opportunities.



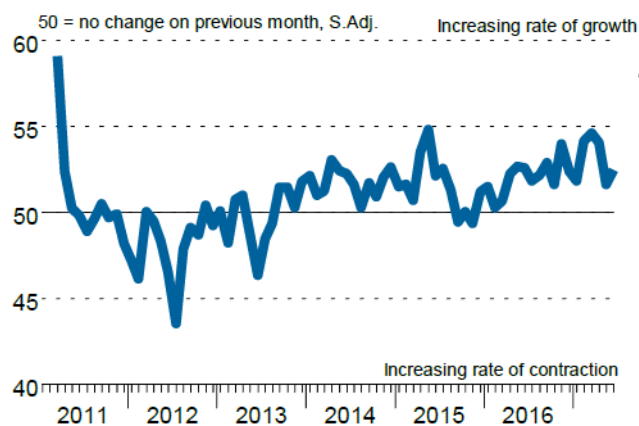
Source: VietCapital Securities

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Economy

PMI in June sees pick-up in growth

Nikkei Vietnam Manufacturing PMI



Sources: Nikkei, IHS Markit

Growth in the Vietnamese manufacturing sector improved at the end of the second quarter of the year, following a slowdown in May. A solid rise in new orders supported increases in production, employment and purchasing activity. Business sentiment eased further, however, dipping for the fourth month running to the lowest in four years.

The headline Nikkei Vietnam Manufacturing Purchasing Managers' Index – a composite single-figure indicator of manufacturing performance – rose to 52.5 in June, up from May's 14-month low of 51.6. The latest reading signaled a solid improvement in the health of the sector and one that was above the average since the survey began in March 2011.

The pick-up in growth in the Vietnamese manufacturing sector in June allays some of the concerns that were raised by the marked slowdown seen in May, with a solid rise in new business particularly encouraging. Although slightly down on the first quarter of the year, the average PMI reading over Q2 points to a further expansion of Vietnamese manufacturing output.

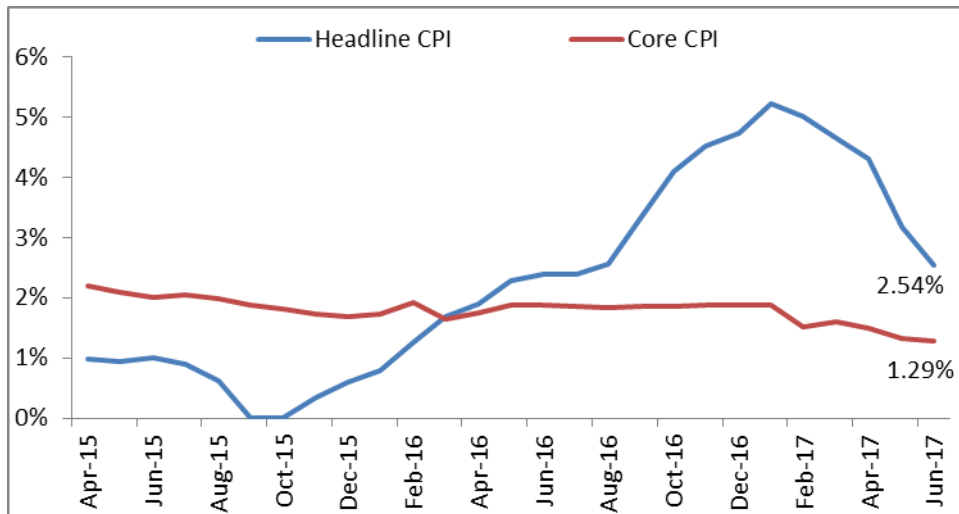
Only a few days ago the State Bank of Vietnam (SBV) cut interest rates to support economic growth. However, in order to prevent inflation, the cut was only 0.5%.

- The annual maximum short-term interest rate for loans in VND, in certain sectors, from financial institutions was cut by 0.5 percentage points
- The annual refinancing rate, the rediscount rate, the overnight electronic interbank rate and the rate on loans to offset capital shortages in clearance between the SBV and domestic banks were cut by 0.25 percentage points each

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This rate cut will encourage enterprises to borrow more in order to expand their businesses. The SBV decided to cut rates due to a slowing inflation rate in the first half of 2017, with the headline CPI in June being a modest 2.54%. Meanwhile, the core CPI continued to fall to 1.29% which helped the SBV in its decision to cut rates. The SBV is probably testing the impact on inflation and currency with this rate cut and without an adverse reaction they will most likely follow with further rate cuts in the near future.

CPI since June 2007



Source: GSO, AFC Research

Subscription

The subscription deadline for this month will be the 25th July and if you would like any assistance with the investment process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

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Estimated NAV as of 15th July 2017

NAV	1,867.93*
Since Inception	+86.79%*
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%	+2.96%	+4.52%	+0.0%*						+14.18%*

*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.*

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