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MAYER'S SPECIAL SITUATIONS

An Easy Way to Buy the World's Cheapest, Fastest-Growing Stocks

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Here's to 2014

Chris Mayer
Editor

In my travels, I often run up against a problem. I find a great opportunity, but it is hard to buy. I'm reminded of a story about my first trip to Saigon and the scam artist that got me… and unintentionally revealed a great investment idea.

I had let my guard down. When I arrived in Saigon, flying in from Phnom Penh, I went with the first taxi driver who approached me. He had an official-looking laminated card with rates and such. OK, fine.

Well, when he dropped me off on the street across from my hotel, I knew something was up. The fee was $25, which I paid. But I learned later that that cab fare should've been $5. Taxi scams are rife around Saigon's airport.

Soon after, I learned about Vinasun.

No, it's not some kind of dietary supplement. Vinasun — or Vietnam Sun Corp. — is the largest taxi operator in Vietnam. It is generally honest and reliable. People told me to stick with those cabs because they have meters.

I also noticed that you needed a taxi in Saigon to go almost anywhere. It's not a great city for walking. There is the heat and humidity, for one thing, not to mention the pollution. Then there is the chaotic sea of traffic, including an unbelievable number of motorcycles. So I wound up taking a Vinasun cab to almost all of my meetings.

I also remember looking at Vinasun's stock. It looked like a great business at a cheap price, but it was hard to buy. As I say, this is my usual problem when I am out in the frontier markets. There are fantastic opportunities, but they are not easy for American investors to buy through an E-Trade or Schwab account.

I didn't think much of all this until recently.

I've been hearing more and more from my contacts about how Vietnam's stock market is attractive again. Take a look at the wipeout investors suffered through from the highs in 2007.

Vietnam's Waterfall

Viet Capital — Hanoi Index 2006–Oct. 2013

I looked up Vinasun, and as it turns out, it was a great investment idea. It's tripled since I was in Saigon in 2011. Yet it still trades for less than

10 times earnings and enjoys a 20% return on its equity. It has over 4,000 cabs and is expanding into new cities. It is still a fantastic business at a great price.

But now I have a solution to this recurring problem. It is a way get exposure to all the great frontier markets of Asia in one go: the AFC Asia Frontier Fund. The AFC fund's largest position is in Vietnam. And one of its positions is Vinasun.

I had a chat with Thomas Hugger, the portfolio manager of the fund. He is Swiss, based in Hong Kong and has over 20 years experience investing in frontier markets. We started talking about Vietnam.

"It is one of the few markets that is faraway from its all-time high," Thomas said. "And it's a contrarian idea. As usual when markets have gone through a long fall, equities are completely undervalued. People don't want to hear about it. They don't want to own it. I was in Switzerland and they were big investors in 2007 and 2008 [before the market tanked], and now nobody wants to hear about Vietnam. That's always a good sign."

The fund's universe includes listed equities from Bangladesh, Cambodia, Laos, Mongolia, Myanmar, Pakistan, Papua New Guinea, Sri Lanka and Vietnam… and Iraq.

Iraq? Marc Faber, the famed newsletter writer and respected global investor, is on the board of directors of the fund and is also an investor in the fund. "Faber likes Iraq, so we added it," Thomas said.

Altogether, the AFC universe is a market of 572 million people. The main appeal here is twofold: The stocks are cheap and the growth rates are high. As for cheapness, take a look at the nearby tables. You'll see that AFC's frontier markets — such as Sri Lanka and Vietnam — are much cheaper than comparable markets. You'll also see how AFC picks stack up against better-known rivals in emerging markets.

Hugger has a big focus on consumer stocks. "We have a 45% sector allocation to consumer stocks," he said. "That is very different than most of our competitors."

True. If you look at Mark Mobius' multibillion-dollar fund, you'll find him concentrated in big financial stocks. Other

It's Cheaper on the Frontiers

Select Asian Frontier Index Valuations

Country	Index	P/E	P/B	Dividend Yield (%)
Laos	LSXC	9.2	1.3	7.9
Pakistan	KSE100	9.4	1.7	5.8
Sri Lanka	CSEALL	12.1	1.6	2.8
Vietnam	VNINDEX	12.6	1.7	4.1

Emerging Asia Index Valuations

Country	Index	P/E	P/B	Dividend Yield (%)
Thailand	SET	15.2	2.2	3.1
Philippines	PCOMP	18.7	2.7	2.2
Indonesia	JCI	19.1	2.5	2.2
Malaysia	FBMKLCI	17.1	2.3	3.1

AFC Picks vs. Regional Peers

Asian Frontier Consumer Picks

Country	Company	P/E	P/B	Dividend Yield (%)
Bangladesh	Shoe Retailer	14.2	5.1	3.9
Iraq	Consumer Beverage Products	13.6	2.0	3.9
Mongolia	Consumer Food Products	9.6	0.8	0.8
Pakistan	Consumer Beverage Products	10.5	1.3	1.8
Vietnam	Consumer Food Products	8.9	2.4	8.6

Regional Comparisons

Country	Company	P/E	P/B	Dividend Yield (%)
India	Bata India	34.6	8.5	0.6
China	Tsingtao Brewery	27.1	4.3	0.9
Thailand	President Bakery	24.0	5.6	2.1
Indonesia	Indofood Sukses Makmur	21.8	2.6	2.8
Philippines	Universal Robina Corp	26.1	5.5	1.9

funds often are overweight big energy names. The AFC fund, because it is small, can go where the big funds can't.

"Some of these big funds need a daily liquidity of $6 million to buy [a stock]," Thomas said. "But Mongolia's whole stock exchange can have a turnover of less than $200,000 a day."

So when money goes into these smaller frontier markets it pools in just a few stocks, which pushes up the valuations on those stocks. Thomas told me about how KKR bought

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1-800-708-1020 or 443-268-0468
or e-mail customerservice@agorafinancial.com

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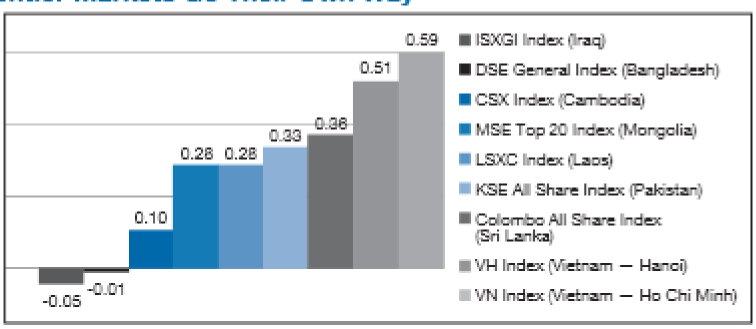
the stock of Masan, a noodle company, at 44 times earnings. But AFC bought a similar stock for 7 times earnings. Both companies are growing at a similar rate. There are some differences, of course, but the value gap is huge.

"We are not investing in smaller companies per se, but where we don't see value in the blue chips we can go into the smaller companies," Hugger said.

One of the things I like about the fund is that it gets you exposure that is hard to get — and that is different than other things you likely own. For example, you probably own a lot of stocks. Most of them will go up and down together. (They have a high correlation with the overall market.) With the stock market at high levels, it would be nice to own some things that don't amplify that correlation. Ideally, you'd like to own some things that have a low correlation with the overall market.

Frontier markets do that. They have low correlation with world markets. Which means if world markets fall, these markets ought to fall less, or may not fall at all.

Frontier Markets Go Their Own Way



Source: Bloomberg

A correlation of 1 means that the market moves in lock step with the world index. The closer you get to zero, the lower the correlation. A negative number means that the market has tended to move in the opposite direction of the world index. These are theoretical relationships, derived from how the markets traded in the past. There is no guarantee that they should behave like that at all times going forward.

For Hugger, getting in the right country is key.

"It is important that we get the country allocation right and that we avoid mistakes," he said. "For example, think about investing in Vietnam in 2008 when it fell 80% in local currency and 90% in U.S. dollars. At the same time, Mongolia went up 350%."

The economic pressure points can also vary widely. So Papua New Guinea and Mongolia benefit from high resource prices. On the other hand, Bangladesh and Sri Lanka suffer, especially from higher oil prices.

I asked Hugger what the most important thing was to get right about a country, something that people may overlook. In a word: currencies.

"One major problem: We cannot, and don't want to, hedge currencies," he said. It is expensive if you can do it at all. There is nobody offering to hedge the Papua New Guinea currency, for instance.

"We want to manage the currency risk through the country allocation," he said. "This is very important." Even if you are right and a stock goes up 30%, if the currency falls 15%, you have basically given back half of your gains. Conversely, strong currencies can magnify gains.

The fund is still relatively new, open only since March 2012. It has lagged the hot U.S. markets, of course, and basically matched the frontier Asia index. But you can't invest here looking backward. You have to believe that these rapidly growing markets — with economies growing 4–12% annually — will open up great opportunities for the businesses there. Combine that growth with cheap stocks and you have a potentially zippy cocktail.

I encourage you to invest in the fund. We'll track its performance informally beginning with 2014. You can check out the website here: http://www.asiafrontiercapital.com.

Also, sign up for the free newsletter, where Hugger and his team will update you on what's happening. This newsletter includes their travel notes, which always makes for fascinating reading. (I've been a reader since the inception of the fund.)

The usual minimum investment in the fund is $50,000. However, Hugger agreed to lower it to $25,000 for my readers. If you've always wanted to participate in the frontier markets, but didn't know how, now is the time to do it. And the AFC fund is a way to get exposure to several markets in one shot.

Drop Hugger a line and tell him you are a reader of *Mayer's Special Situations* if you want to take advantage of the special $25,000 minimum. Here is the email: info@asiafrontiercapital.com

As I say, I'll track it in 2014 (and beyond), and we'll see how it shakes out.

Luxury Resort Projects at 60 Cents on the Dollar

Today, you can buy one of the leading resort companies in emerging markets for just 60% of its net asset value. In