15th December 2014

ASIA FRONTIER CAPITAL

AFC VIETNAM FUND UPDATE

Fund Category	Vietnam Public Equities
Country Focus	Vietnam
Subscriptions	Monthly at NAV (five 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 NAV appreciation with high watermark
Fund Domicile	Cayman Islands
Launch Date	11 December 2013
Custodian Bank	Viet Capital Securities, Ho Chi Minh City
Auditor	Ernst & Young, Hong Kong
Administrator	Amicorp Fund Services Asia Pte Ltd., Singapore
Legal Advisor	Ogier, Hong Kong

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It has been an interesting start to the month with the economic shift of the past few weeks probably best described as a salary increase shock due to lower oil prices for billions of people. Only a few months ago, commodity and energy experts found as many arguments why oil prices could rise from USD 100 to USD 120 or USD 150 dollars per barrel, as they are finding today whether the oil price could level off at USD 70 or still fall to USD 40-50.

During this madness of intellectual debate some markets, oil related stocks and currencies have fallen through the floor within an incredibly short time period. Without being able to make a statistically significant statement, the media has been quick to point out themes such as world deflation and a decline in economic output, which could negatively impact consumption, and therefor prices, which could knock to dampen the entire economy. Whilst this could be the case, neither my personal contacts nor business people I met on my last trip in Asia and Europe, have complained about the drop in prices at the gas station or the falling heating costs during winter. So it seems the average consumer will simply have more money left at the end of the coming months and will probably spend it most happily on other things.

This is quite a contrast to Japan, where the government has tried for quite some time, with a more than questionable economic policy, to inflate away as much purchasing power from its own people in the shortest possible time. As has been seen since the end of 2012 they have tried to debase their currency by means of ultra-loose monetary policy in order to achieve the ambitious inflation target of 2%. I was quite amazed that many people were surprised when it was seen that imports, in particular energy, prices rose and the Japanese consumer - who is responsible for 60% of GDP - subsequently didn't consume more and proceeded to do quite the opposite! Another seemingly clever action was also to increase the VAT from 5% to 8% in April. With the subsequent drop in spending it only took a few months until the economic experts were once again surprised when they had to report another recession. Even on a nominal basis this is the 5th recession in the past 10 years!

It will be curious to see if the European economic policy makers will be able to learn from these past experiences and avoid the same situation as Japan. There is a danger that they end up achieving the maximum damage for all involved by using German precision in applying Italian solutions to European economic problems, kind of what happens when Merkel meets Draghi.

Whichever way the course of the global economy follows in the next few months the basic course of our Vietnam story remains unaffected. Depending on the specific prescription applied to the global economy there could be a change to the timing of the next correction which could take longer than originally forecasted. That being said a lot of bad news is already priced in with the almost 50% drop in the oil price, the already escalating economic Russian crisis and weakening European economic data. There is a greater likelihood of a 50% increase of the oil price than a further 50% decline from its current level of USD 58 per barrel.

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Whilst the Vietnamese economy is overall virtually unaffected by the oil price decline, there will be winners and losers among the various industry sectors. The oil sector panic will determine the short-term direction of the stock market index given the energy heavy index weighting. The extent of this impact is not yet known and even the US is seeing downward pressure with the major oil companies losing around 30-40%. Apart from that in our portfolio we have also seen valuation adjustments for some companies which are not related to the oil sector.

The Ho Chi Minh index lost -3.3% since end of November, the less noticed Hanoi index -3.6%.

Given the upcoming Christmas holidays, we are glad to report an almost unchanged NAV, according to internal calculations, of approximately $ 1,340, -0.6% (+ 34% since the launch of fund December 11, 2013). The next date for new investments this month will be December 22.

Dear investors, we wish you and your families a Merry Christmas and a Happy New Year 2015!

Best wishes,

Andreas Karall, CIO