ASIA FRONTIER CAPITAL

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	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 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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Amazing how quickly short-term fears can transform into so called “long-term” purchase decisions by market participants. Yet last month emerging markets were suffering billions of outflows and already this months the same markets recovered significantly, as for example Brazil which rose by over 10% in US dollar terms.

Also in Vietnam suddenly everybody is focusing on all the positive fundamental data - we couldn’t agree more. The two indices, Ho Chi Minh City and Hanoi recovered significantly from their lows and closed the month up 7.9% and 5.5% respectively. Even the Vietnamese Dong was influenced by this positive sentiment and managed to strengthen a little bit (0.7%). In particular, the index heavyweight Vinamilk, which is in process of increasing its foreign ownership limit, influenced other stocks with a similar story positively. But also some of our attractively valued holdings, which reported mostly good Q3 results, experienced a sharp liquidity and stock price increase, which led to the pleasing result that, despite this year’s Dong-devaluations, our NAV climbed to a new all-time high of USD 1’442 (+ 6.9%), according to our internal calculation..

Source: VietCapital Securities

And as so often noticed, despite the recent NAV increase, we are still in the midst of a long consolidation period, as the 5-year Hanoi chart above demonstrates quite clearly. Also from a macroeconomic point of view there aren’t really any major changes, neither in Vietnam nor in international markets and we will probably continue to have the Fed debate until the end of the diesel engine.

The question remains if we have already seen the big sell-off in September, or if we are in a technical rebound and have to expect that mainly Asian stock markets will see further losses? For sure, there is still a lot of uncertainty around. This would actually be a perfect scenario for a continuation of the recovery in emerging markets, which are heavily underweighted by fund managers since a considerable time now, after they were everybody’s darling only 5 years ago when they were trading at their highs.

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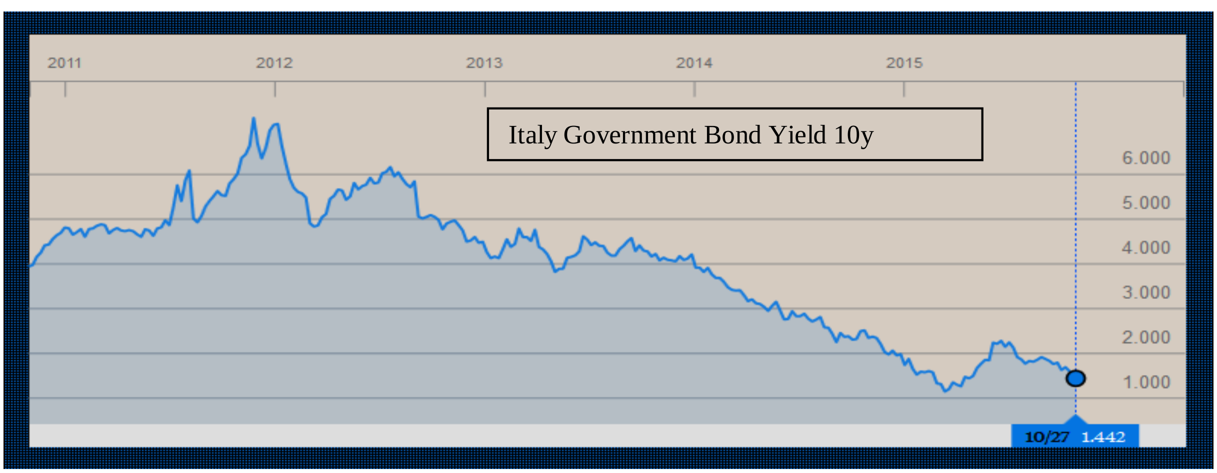
Source: Yahoo

With an increasing performance of these markets, professional investors will become more and more under buying pressure in order to reduce their underweight or even have a neutral weighting. This situation reminds me a little bit of autumn of 2011, when the sentiment in European bond markets was equally negative. A very good example were Italian government bonds, where at the peak of Eurosceptic end of 2011 a huge sell-off happened, pushing yields all the way up to 7%.



Source: Bloomberg

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Although Italian macroeconomic data haven't really improved much since then and the economy is still almost stagnant, the risks of a euro exit and therefore the government bond yields have reduced significantly - and all this long before Draghi's ECB decided to intervene in the free market to aggressively buy bonds. This action was widely put in question from the beginning since its economic benefit seemed to be minimal at best. It certainly doesn't make sense to compare the very different issues of very different countries around the world and it is difficult to imagine that they all will be solved in the near future. The non-occurrence of a partly feared crises such as in 1997/98 does however reduce the pressure on markets significantly.

Should we really see a turnaround in emerging markets, it would be very interesting to know the risks and opportunities in such a scenario. Using the example of Vietnam, which appears increasingly on investors radar screen within the Frontier and Emerging Markets, we have often pointed out that this early stage economy still has enormous upside potential but at the same time it is still not reflected in the market price of our attractively valued holdings. After all, we expect an average growth in 2015 of around 12% in our roughly 80 companies with an average price / earnings ratio of only 7.8. We are often approached by existing and potential investors regarding the associated risk when investing in Vietnam. While Vietnam is politically one of the most stable countries in the region, which is an important factor when relocating production sights to a new country, the recent currency fluctuations have shown the world that Vietnam cannot fully decouple, but it has nevertheless demonstrated a relative stability. When looking at our portfolio, we are certainly very well diversified, mainly to minimize risks in corporate governance, but also to reduce the market impact when trading in low liquidity stocks. The Performance since inception has also shown that we thereby achieve a very low volatility in comparison to HCMC or Hanoi index, even though they themselves compare favourably in terms of fluctuations to developed markets.

Annualized Volatility of various Asset Classes

DAX	21.7%
Nikkei	20.6%
Vietnam	16.5%
S&P 500	14.1%
AFC Vietnam	7.7%**
AFC Asia Frontier	7.4%**
Euro 10 Year Bond	6.7%*
US 10 Year Bond	6.4%

*Source: Bloomberg; * 60 days, all others 360 days; ** based on official monthly NAV*

The subscription deadline for this month will be on Thursday the 24th November, if you would like any assistance with the investment process please be in touch with myself or Andreas Vogelsanger.

Best regards

Andreas Karall, CIO

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.