

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	EY, Hong Kong
Administrator	Custom House, Singapore
Legal Advisor	Ogier, Hong Kong
ISIN	KYG0133A1673

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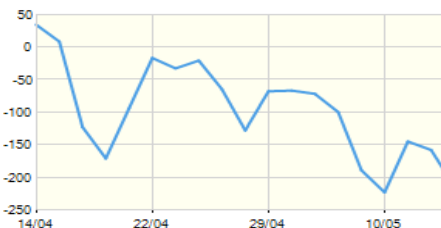
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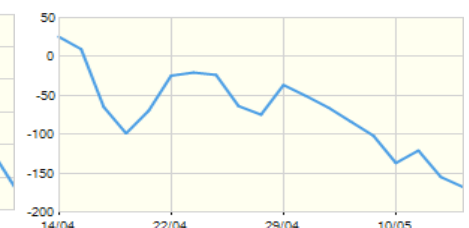
The first two weeks of May saw a continuation of the inhomogeneous development of the two indices. First, there were significant gains in HCMC while Hanoi was trending even lower, and in the last two days the exact opposite happened. It is well worth to analyse this somewhat peculiar development within "one" financial market a little bit in more details to better understand its movements and we may even learn something from it. So far, the two indices increased in May by 2.1% (HCMC) and 0.7% (Hanoi). Our portfolio closely mirrored the broader market and hence is almost unchanged according to internal calculations and stands now at approximately USD 1,531 (+ 0.1%).

If we analyse the current weightings of the two indices, it becomes much clearer why we are glad that our aim is not to track these indices. HCMC, similar to many indices around the world has a few stocks which are heavily concentrated. The top 5 companies account for almost half of the weighting (47%) and the top 10 companies are already close to 2/3 (64%), out of a total of approximately 300 stocks. This index can be easily replicated with only 10 very liquid shares (although some of them cannot be easily bought due to foreign ownership limits!). It is interesting to note that 6 out of these 10 heavy-weighted index names are in the financial, respectively in the real estate sector. Inflows of ETF's and institutional investors are mainly concentrated in these shares and therefore this leads occasionally to peculiar moves. Since the middle of April, the index increased by 5.3% with the top 5 names responsible for 2/3 of this move and the top 10 shares even for 96%(!) – on the other hand, the remaining 300 shares had no impact at all. Accordingly disappointing is the market breadth, which would be an indication of a healthy, sustainable market strength - but unfortunately it doesn't look like that so far.

Market breath HCMC 1 month



Market breath Hanoi 1 month



Source: stockbiz.vn

The picture of the Bloomberg index composition data for the second main index of Hanoi looks completely different and absurd. The two most heavily weighted companies represent about 25% of the index (a plastic producer and a bank), and the third company has only a weighted of 2.7% and is a completely illiquid stock with a market capitalisation of less than USD 4 million! Large and very liquid companies from the oil, gas and financial brokerage sector with market capitalisations between USD 100m and USD 500m have a mere weighting of 0.1% to 0.3%. This of course does not make any sense, but at least are movements - unless the heavily weighted two stocks jump as seen over the last two days - widely scattered over the nearly 400 index names.

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This is one more reason for us not to become a mainstream fund focussing on daily index movements. We prefer to continue with our proven investment strategy, and enjoy our profits together with our investors or are annoyed about our losses.

We rather want to focus our attention on the previously published quarterly results and to put this in context with the overall economic development. In Q1 an above average number of companies reported lower than expected results and about half of the companies couldn't even achieve growth in sales or profits. Perhaps this is another reason why the overall market didn't manage to break out on the upside yet. However, we observed that the quarterly results in Vietnam are fluctuating considerably stronger in comparison of what we are used to from other markets. An explanation could be that after the last two quarters of excellent results for many companies, we are now seeing a rather modest first quarter. Nevertheless, analysts maintain a positive outlook for the full year and are still expecting an earnings growth of 15-20% for 2016.

We continue to see very solid macro-economic data and also the currency appears to be much more stable than in the previous year. Uncertainties derive currently rather from a prolonged drought and external shocks than an abrupt end of the economic recovery. One risk remains of course, and that is the still early recovery in commodity prices. The market however is often realizing turnarounds much too late, as we have seen many times before. Brazil is a perfect example of how rapidly a turnaround (if it is sustainable) in an emerging market can take place without being recognized as such. Brazil markets showed a brilliant performance YTD despite still negative news flow, with stock market and currency gains of 22.9% and 13.6% respectively.



Source: Yahoo

Should this favourable investor sentiment towards emerging markets continue, we think an increase of capital inflows into Asia is very likely.

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The subscription deadline for this month will be on the 23rd May and if you would like any assistance with the investment process please be in touch with myself or Andreas Vogelsanger.

Best regards,

Andreas Karall, CIO

Estimated NAV as of 15th May 2016

NAV	USD 1,531*
Since Inception	+53.1%*
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%	+0.05%*								+7.89%*

*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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