

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

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With a strong rally in index heavy weight banking stocks the indices were able to advance strongly in January while the broader market remained steady. The index in HCMC increased by 4.9% in local currency while the index in Hanoi gained 5.4%. With a slightly stronger Dong our NAV increased 1.8% to USD 1,665 according to internal calculations.

Market developments

Banking stocks rallied strongly, some of them increased by up to 30% last month with the announcement of raising the foreign ownership limit (see comment below). This was mainly impacting higher quality banking stocks with a full foreign ownership at 30%; which means that only investors already owning these stocks were able to participate in this rally. With our investment strategy of aiming to achieve a stable performance from a broad diversified portfolio with evenly weighted stocks between 1-3%, holding one or two volatile banking stocks wouldn't have made a huge difference in our monthly performance.



Asia Commercial Bank from Jan 2012 to Jan 2017; source: Viet Capital Securities

Nevertheless, this banking stock rally improved the overall technical market picture with the Ho Chi Minh City Index now trading at its highest level since 2008 while the Hanoi index is still trading in its now already 5 year old trading range.

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Ho Chi Minh City Index from July 2001 to Jan 2017; source: Viet Capital Securities

Interestingly, the small cap index, which is trading in a consolidation phase since last summer, recovered along with the broader market over the last two days which benefitted our portfolio as well. Of course, we are confident that this trend will continue during the new Chinese year of the rooster.



Small Cap Index from July 2016 to Jan 2017; source: Viet Capital Securities

With reporting season just starting we are looking to update our portfolio according to our model over the next few weeks.

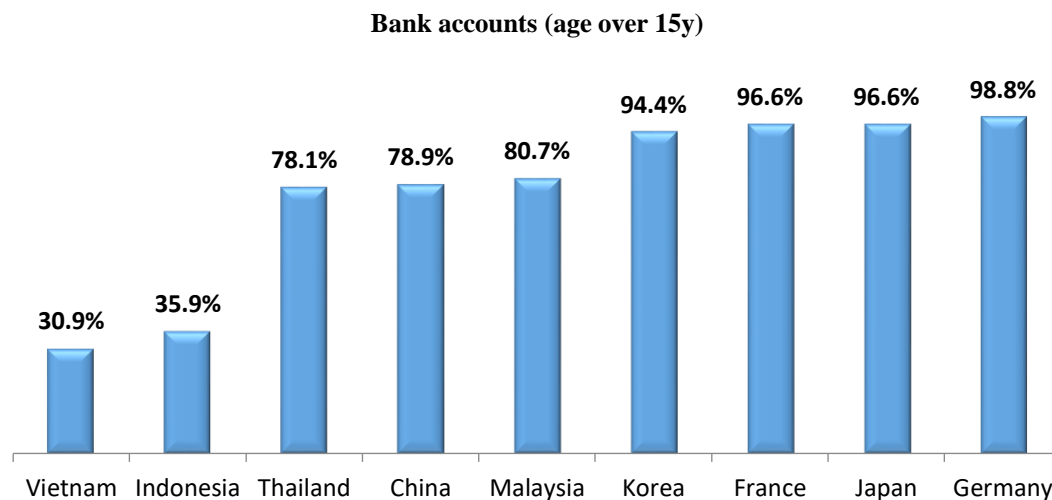
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Vietnam's Premier to Raise Foreign-Investor Caps on Banks

Vietnam will increase the foreign ownership limits (FOL) in banks as early as this year to speed up the overhaul of the nation's banking system and further lure overseas investments to boost economic growth, according to Prime Minister Nguyen Xuan Phuc.

The current foreign ownership limit of listed banks is 30%, but Phuc didn't specify the new ceiling which will be introduced later this year, but he indicated that the government may sell out completely from the more troubled banks.

The banking sector in Vietnam has considerable growth potential. According to a 2015 World Bank report, only 30.9% of the population in Vietnam is using banking services, which is quite low compared to the world average of 62%. Most banks in Vietnam are generating 70-90% of their profits from traditional lending and are still very "old fashioned", offering hardly any electronic banking services.

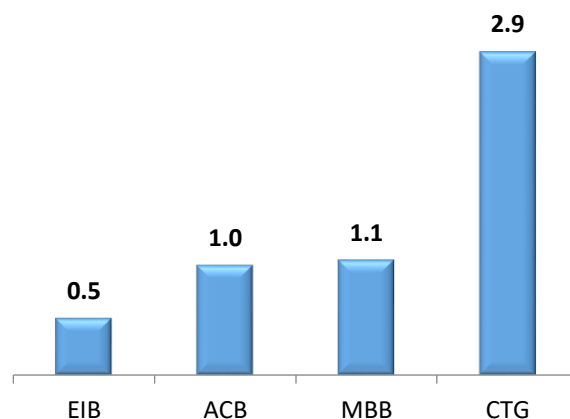


Source: World Bank

Even with an increase of the ownership limits, not all banks would become potential targets of foreign investors. Some of the listed banks have already no foreign room left, such as Asia Commercial Bank (ACB), Military Bank (MBB) and Viettinbank (CTG). But there are still some banks with room for foreign investors, such as for example BIDV, Vietcombank (VCB), Sacombank (STB), Saigon Hanoi Bank (SHB), Navibank (NVB) and Vietnam International Bank (VIB). An increase of FOL's is certainly creating a boost in banking stocks in the short term, but in the long run, Vietnam still needs to improve its overall banking regulations and management, before they are able to attract significant foreign capital. It is expected that potential strategic foreign investors would bring in valuable know-how, which is desperately needed in order to further improve this sector.

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Full foreign ownership limit banks by market cap (USD billion)



Source: Viet Capital Securities

Economy

Vietnam is celebrating its Lunar New Year (Tet) from 26th January to 1st February this year and hence most economic numbers will only be announced in the first week of February.

According to Ministry of Agriculture, the total agricultural export revenue in January was USD 2.54 billion, slightly lower (-1.5%) compared to same period last year.

Despite the US withdrawal from the TPP Agreement, Vietnam is confident that overall exports to the US will continue to grow, although some of the textile and garment manufacturers have reduced their growth target from 30% down to 12%.

Macroeconomic Indicators				
	2013	2014	2015	2016
GDP	5.42%	5.98%	6.68%	6.21%
Industrial production (YoY)	5.90%	7.60%	9.80%	7.50%
FDI registration (USD bn)	21.6	20.23	22.76	20.95
FDI disbursement (USD bn)	11.5	12.4	14.5	15.8
Exports (USD bn)	132.2	150	162.4	176.6
Imports (USD bn)	131.3	148	165.6	174.1
Trade balance (USD bn)	0.9	2	-3.2	2.5
Retail sales (YoY)	12.60%	10.60%	9.50%	10.20%
CPI (YoY)	6.03%	1.86%	1.34%	4.74%
VND	21,125	21,405	22,540	22,600
Credit growth (YoY)	12.50%	14.00%	17.30%	16.50%
Foreign reserves (USD bn)	32	36	36	41

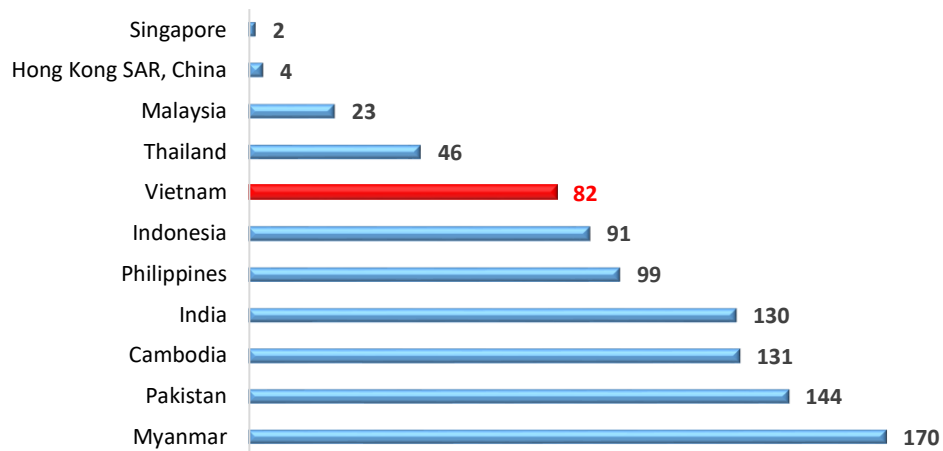
Source: AFC research, SSI, GSO, SBV, VCB

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Other developments

Thanks to significant government efforts, doing business in Vietnam is getting much easier. Setting up a new company takes now only 5 days compared to 1 month just one decade ago. In 2016, the number of new established enterprises hit the record high of 101,100, surging 16.2% against 2015. A lot of small businesses do not need to register with the authority anymore. It is expected that the improvements of administrative bureaucracy will stimulate the economic growth going forward.

World Rank 2016 - Ease of Doing Business



Source: World Bank

Subscription

The subscription deadline for this month will be the 22nd February 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 31st January 2017

NAV	USD 1,665*
Since Inception	+66.5%*
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	+1.8%*												+1.8%*

*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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